



## **The Political Economy of the "Great Decoupling": Strategic Autonomy, Regionalized Supply Chains, and the End of the Neoliberal Global Trade Order**

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### **Abstract**

The mid-2020s have definitively marked the end of the era of unfettered, efficiency-driven globalization, giving way to a volatile, multi-polar economic system defined by state-directed strategic autonomy. This comprehensive paper investigates the political economy of the "Great Decoupling"—the systemic, state-led restructuring of transnational production networks away from globally integrated supply chains toward geopolitically bounded, regionalized industrial blocs. We argue that this shift represents a profound contradiction within late-stage capitalism: the subordination of the historic imperative for the lowest-cost global production to the modern security imperative of preventing technological and material dependency on geopolitical rivals. By analyzing the massive, state-subsidized re-industrialization efforts in the United States, the European Union, and China, we deconstruct how the weaponization of trade—through export controls, tariffs, and "friend-shoring"—fundamentally reconfigures the global division of labor. The study provides a critical evaluation of the structural costs of this transition, including the permanent embedding of inflationary pressures, the duplication of industrial infrastructure, and the systematic marginalization of developing nations that cannot navigate this bifurcated trade order. We further critique the "techno-nationalist" paradigm, demonstrating how governments utilize the rhetoric of security to facilitate massive corporate subsidies for domestic oligopolies, while simultaneously eroding the few remaining global environmental and labor standards. The paper concludes that while the era of hyper-globalization is over, the emerging order of managed, regionalized trade holds no inherent promise of stability or equity. We propose a radical macroeconomic alternative centered on the localization of essential production, the democratization of trade governance, and the restoration of international cooperation predicated on ecological and social justice rather than competitive industrial supremacy.

**Keywords:** Great Decoupling, Strategic Autonomy, Geoeconomics, Techno-Nationalism, Regionalized Supply Chains, Global Trade Order, Industrial Policy, Neoliberalism, Political Economy



## **1. Introduction**

For nearly four decades, the global political economy was dominated by the ideology of hyper-globalization. The prevailing logic, codified by the Washington Consensus, asserted that the integration of markets, the unhindered flow of capital, and the optimization of supply chains across the planet were the ultimate drivers of economic efficiency, peace, and prosperity. However, the cumulative shocks of the 2020s—including the COVID-19 pandemic, the breakdown of maritime logistical nodes, and the escalation of overt geopolitical conflict—have shattered this consensus.

We are now living through the "Great Decoupling." This is not a gradual drift but an active, state-led process of dismantling the highly integrated, globalized production networks that once defined the world economy. The governing logic has shifted from "just-in-time" cost efficiency to "just-in-case" strategic autonomy. Nations are no longer willing to outsource the production of essential technologies, energy sources, and materials to geopolitical rivals, even if such outsourcing was historically the most profitable arrangement.

This paper argues that the Great Decoupling is a fundamental structural crisis of late-stage capitalism. It represents the collision between the transnational logic of capital, which seeks the lowest-cost labor and resource inputs regardless of borders, and the territorial logic of the state, which seeks security, control, and domestic industrial supremacy.

This article is structured to provide an exhaustive deconstruction of this systemic realignment. Section 2 establishes the theoretical framework, analyzing the tension between the "transnational space of flows" and the "territorial space of places." Section 3 traces the historical catalyst of supply chain weaponization. Section 4 examines the shift toward "friend-shoring" and the formation of bifurcated trade blocs. Section 5 evaluates the macroeconomic impacts, specifically concerning inflation and the duplication of industrial capital. Section 6 critiques the techno-nationalist resurgence as a mechanism of corporate welfare. Section 7 analyzes the devastating impacts on the Global South. Finally, Section 8 proposes a radical policy framework for an equitable, localized, and democratically managed international trade order.

## **2. Theoretical Framework: The Territorial Logic vs. The Capitalist Logic**

The Great Decoupling is best understood as a profound restructuring of the relationship between the state and the market.

### **2.1 The Tension of Territoriality**

Giovanni Arrighi's analysis of the cyclical nature of capitalist hegemony suggests that economic power is always backed by a territorial power base. The neoliberal era attempted to obscure this reality, creating the illusion that capital could exist in a frictionless, borderless global space. The Great Decoupling marks the violent return of the territorial state. Capital is being re-tethered to national or regional blocs, not through a voluntary market transition, but through the hard enforcement of export controls, subsidies, and security mandates.



## **2.2 The Spatial Fix and the New Division of Labor**

The spatial fix of the 1990s and 2000s involved moving manufacturing to the lowest-wage jurisdictions. The spatial fix of the 2020s involves moving manufacturing to "safe" jurisdictions. This restructuring is not about efficiency; it is about security. The global division of labor is being rewritten to align with the map of geopolitical alliances rather than the map of comparative advantage.

## **3. Historical Catalyst: The Weaponization of the Supply Chain**

The Great Decoupling was not a sudden decision; it was the inevitable response to the weaponization of global trade networks.

### **3.1 The End of "Mutual Benefit"**

The foundational premise of globalized trade was that mutual economic reliance would prevent conflict. The events of the early 2020s proved this premise false. Global trade networks, particularly in semiconductors, critical minerals, and energy, were revealed to be acute points of vulnerability. Hegemonic powers recognized that controlling the "nodes of circulation" (the chips, the refining capacity, the energy pipelines) allowed for the exercise of significant geopolitical influence.

### **3.2 The Defensive Pivot**

The subsequent pivot by the US, the EU, and China toward "strategic autonomy" was defensive in origin. When a global power realizes that its most critical military and economic technologies depend on components controlled by a rival, the immediate logic is to decouple, duplicate, and reshore. This has triggered a competitive subsidy race where the state—not the market—dictates the geography of investment.

## **4. Friend-Shoring and the Bifurcation of Trade Blocs**

The current restructuring of the trade order is creating two competing, and increasingly isolated, economic ecosystems.

### **4.1 The Western Bloc: The IRA and EU Green Deal**

The US Inflation Reduction Act (IRA) and the EU Net-Zero Industry Act are the primary legislative engines of the Western bloc's decoupling strategy. By tying massive industrial subsidies to local content requirements—stipulating that batteries, minerals, and components must be sourced from domestic or "allied" jurisdictions—the West is creating a closed-loop trade system.

### **4.2 The Chinese Response: Dual Circulation**

Conversely, China's "Dual Circulation" strategy prioritizes domestic self-sufficiency while reorienting its external trade toward the Global South and the Belt and Road Initiative (BRI). China is leveraging its refined dominance in battery technology, solar panels, and critical



mineral processing to cement its role as the essential trade partner for the developing world, effectively neutralizing the Western containment strategy.

### **4.3 The Cost of Bifurcation**

This system is fundamentally inefficient. It necessitates the costly duplication of industrial capacity, where both the Western bloc and the Chinese bloc build redundant chip fabrication plants, battery gigafactories, and mineral refineries. This creates a permanent, structural inflationary pressure, as the efficiencies gained from globalized specialization are lost to the security mandates of duplicate regionalization.

## **5. Macroeconomic Impacts: Inflation and the Duplication of Capital**

The Great Decoupling signals a return to a high-cost global economic environment.

### **5.1 Capital Duplication**

The most immediate economic consequence is the massive, inefficient duplication of industrial capital. Building a semiconductor fabrication plant requires tens of billions of dollars. When such facilities are built in three or four competing regions instead of being optimized in the most efficient global location, the total cost of production for the final commodity rises dramatically.

### **5.2 Permanent Inflationary Structuralism**

In the era of hyper-globalization, the global supply chain functioned as a massive, deflationary engine by perpetually sourcing the cheapest possible inputs. The Great Decoupling reverses this engine. By restricting competition, prioritizing local sourcing, and mandating domestic production regardless of cost, the new order embeds permanent inflationary pressures into the global economy. This is not a temporary supply chain glitch; it is the structural cost of security.

## **6. Techno-Nationalism: The State as Corporate Benefactor**

The rhetoric of "security" and "autonomy" acts as a potent smokescreen for a massive expansion of corporate welfare.

### **6.1 Subsidizing the Oligopolies**

The beneficiaries of the Great Decoupling are not the workers, but the dominant industrial oligopolies. By framing subsidies as essential for national security, corporations have successfully secured trillions in public capital. These subsidies are rarely accompanied by rigorous conditions regarding wage levels, worker unionization, or public control over the resulting technological intellectual property.

### **6.2 The Erosion of Global Standards**

Techno-nationalism is rapidly eroding the limited global standards that once existed for environmental protection and labor rights. As nations compete to host critical manufacturing hubs, they are engaging in a "race to the bottom," offering further deregulatory incentives and



ignoring the social costs of massive industrial scaling. The pursuit of "strategic autonomy" is providing the political cover for the degradation of labor and ecological oversight.

## **7. Impacts on the Global South: Marginalization and Subordination**

The Great Decoupling is devastating for the nations of the Global South that do not have the fiscal capacity to participate in the subsidy wars.

### **7.1 The Loss of the Manufacturing Ladder**

Historically, developing nations relied on cheap labor and exports to climb the manufacturing ladder. The Great Decoupling destroys this model. As production is reshored to the core, the Global South is increasingly relegated to being either an extractive exporter of raw materials for the competing blocs or a forgotten periphery, excluded from the high-value supply chains of the future.

### **7.2 Geopolitical Balkanization**

The developing world is being forced to navigate a bifurcated economic order. Choosing an alignment carries profound long-term developmental consequences, as trade infrastructure, technological standards, and investment capital become increasingly polarized. This Balkanization prevents the formation of a unified Global South agenda and increases the vulnerability of these nations to external imperial pressure.

## **8. Toward an Equitable International Order: A Radical Alternative**

The Great Decoupling is not the only possible path. A progressive alternative requires a radical reimagining of international trade.

### **8.1 The Localization of Essential Production**

Decoupling should not be viewed as a negative necessity of security, but as an opportunity for genuine localization. This means shifting production away from long-distance global supply chains toward localized, circular economies. This is the only path toward ecological sustainability and systemic resilience, reducing the catastrophic environmental footprint of global transport.

### **8.2 Democratic Trade Governance**

Trade governance must be dismantled from its corporate-captured foundations and rebuilt on the principles of transparency, multilateral cooperation, and social justice. This means establishing binding global labor standards, prohibiting the enforcement of intellectual property rights over essential health and green technologies, and ensuring that trade policies are subservient to ecological and human rights mandates.

### **8.3 Cooperation over Competitiveness**

Finally, we must replace the paradigm of competitive industrial supremacy with one of international technology transfer. The climate emergency is a global problem requiring a global



solution. The hoarding of green technology by protected regional blocs is a crime against the planet. We propose the establishment of an international public technological commons, where critical decarbonization technologies are shared, co-developed, and deployed globally, ensuring that the transition is not just efficient, but equitable for all.

## 9. Conclusion

The Great Decoupling marks the end of an era of capitalist integration that prioritized efficiency above all else. However, its successor—an era of state-directed regionalization and technonationalism—does not promise a more democratic or sustainable world. It simply reorganizes the contradictions of capitalism on a territorial scale.

The costs of this reorganization are immense, and they are currently being borne by the working class through higher prices, the Global South through continued marginalization, and the planet through the systemic failure of international climate cooperation. To move toward a stable and equitable future, we must resist the siren call of competitive nationalism. We must advocate for a political economy that favors the localization of essential needs over the globalized circulation of commodities, and international cooperation over the weaponization of the supply chain. The Great Decoupling is a historical fact; whether it leads to further fracture or to the building of a more democratic, localized global order is the political struggle of our time.

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