What comes after globalisation?

Location patterns and demand for logistics and industrial space are shifting in turbulent times

The end of the Cold War acted like a catalyst for the liberal international economic order and free world trade. Cash and commodities moved across the globe at will. Location patterns were reshuffled. Asian countries, especially China, beckoned with a seemingly inexhaustible supply of cheap labour. With their labour market largely unregulated, they became the world's extended workbench. The location benefits, augmented by low energy costs and other perks, made many western companies move their production to China. Germany's economy, too, followed the offshoring trend, relocating production lines to Asia while keeping R&D at home.

But the economic system of globalisation, stable over decades, is beginning to crack. In ever shorter intervals, it has suffered blows like these:

Setback #1: repatriation tendencies

The advantages of offshoring have evolved into dependencies. In response, a repatriation trend has emerged lately. The cancellation of international treaties, punitive tariffs, and the exclusion of companies from infrastructure projects reflect growing distrust of the global economic system. Countries refocused on their national interest. Conspicuous examples include Brexit and the politics of the Trump administration despite their different motives. With Trump voted out of office and the Brexit treaty signed in late 2020, these tendencies have been on the back burner while the COVID19 pandemic has made headlines in the two years since. But the trends, while briefly gone from sight, are not going away.

Setback #2: coronavirus pandemic

Since March 2021 at the latest, the COVID-19 pandemic has dominated day-to-day affairs in Europe. It highlighted the systemic relevance of the logistics sector, which is rarely in the public eye otherwise. Even sentiment in the industrial sector brightened after three to six months of uncertainty. In the wake of two pandemic years, the logistics real estate sector everywhere in Europe looks back with serious contentment: Demand for space, building activity and the appetite for transactions are pushing the limits of the market. Manufacturers' order books began to fill again.

Yet there is a sobering side effect to the pandemic: It exposed the fragility of supply chains, further dramatised by the obstruction of the Suez Canal. Having only just regained its momentum, the industrial engine started sputtering again. It intensified the debate whether a globally distributed production with focus on Asia has outlived its usefulness. Is minimal warehousing backed by efficient just-in-time logistics still a viable reality when components get stuck en route?

Setback #3: Russia's war of aggression against Ukraine

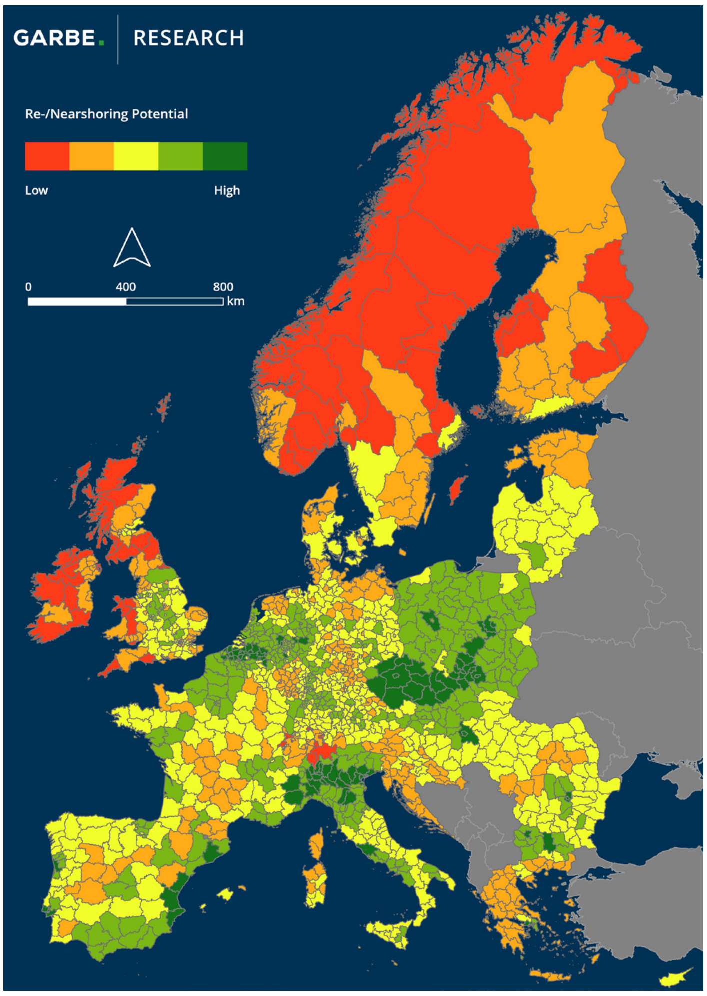
The Russian invasion of Ukraine in early 2022 has plenty of repercussions. Shortages started with cable trees from Ukraine before expanding to sunflower oil and wheat. Economic interdependencies with Ukraine may be comparatively modest, but the war triggered palpable knock-on effects. Moreover, resources from Russia, now hit by sanctions, include more than fossil fuels. Commodities like palladium are difficult to replace. Supply chain issues are intensifying – and indefinitely so. Inflation is reaching record levels. Building materials are in short supply or subject to drastic cost hikes. Interest rate structures, having lingered on a low level for the longest time, are shifting in quick cadence.

Setback #4: China's stalling economy

In times of distress, hopes tend to rest on trade relations with China. As long as this gigantic supplier and consumer market remains active, it develops sufficient gravitational pull to boost the global economy. But as a result of the pandemic, it has become another cause for concern. We face a new situation: Economic growth used to be prioritised. Lately, one thing has taken precedence: China desperately seeks to avoid a failure of its zero-COVID strategy. This domestic policy objective further hampers supply chains.

Globalisation ready for a fresh start? In-, re- and nearshoring potential in Europe

The pandemic has triggered a debate on reshoring or nearshoring production lines, at least on a hypothetical level. It would imply a paradigmatic shift. There is still little statistical evidence of a shift – such as a decline in direct investments in China. The pandemic alone would not have been reason enough. After all, there were sound reasons for relocating the production to China or other Asian markets: Labour markets at home were tightly regulated, with trade unions actively strengthening workers' rights. The transition to renewable energies involves long-term planning and enormous costs, impacting production. Inversely, outsourcing production created handsome margins. Pandemic-battered companies had hoped things would somehow return to normal in the medium term. Backshoring production to Germany or nearshoring it to another European country, and accepting profit cuts, seemed unrealistic.



Source: GARBE Research, Data based on EU Commission, KR&A, OpenStreetMap

But Russia's war against Ukraine, apart from being a humanitarian disaster, proved one blow too many. After four successive reversals, there are signs that manufacturers are changing tack. They clearly prioritise autonomy and security now. In production, this has prompted a "China-plus-one" approach. It supplements a Chinese manufacturing site with one or more alternatives. These may also be located in Asia. A case in point is Apple with its announced intention to decrease production capacity in China in favour of sites in India, Malaysia and other eligible countries.

The "plus-one" destination could also be in Europe. A prime example would be Intel, which will set up or expand its computer chip production in Germany and elsewhere in Europe. Again, the restructuring efforts are not yet reflected in statistics. But the number of examples is growing.

Meanwhile, the European logistics sector manifests another trend: in-shoring. For years, demand for space has been so high that established locations have exhausted available plots and human resources. Logistics operators have responded by in-shoring, which means embracing new location patterns. The new sites chosen are often remote from the typical prime locations still favoured by banks and investors to ensure stable cash-flows. But logistics occupiers have long realised: Traditional thought patterns should be jettisoned to retain the capacity to act. They prefer to rent long-term in order to secure them strategically. Germany's stock of development land is not replenishing itself, and the government's soil sealing policy increasingly restricts the zoning of new sites permitting new options.

The ongoing structural changes have prompted GARBE to study the issue in depth, for instance by monitoring in-, re- and nearshoring trends. A dedicated research project will identify the places in Europe where these trends are likely to evolve. Sample calculations deliver first insights into regional differentiation, as illustrated in the map above.

If you are interested in additional details, feel free to contact us.

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