

## **The End of Globalization as We Know It**

*di Dalia Marin*

*Since 2008, rising economic, geopolitical, and climate risks, together with progress on automation, have fundamentally changed firms' calculations regarding global value chains. While firms have reason to keep some production on foreign soil – if it cannot be automated at home – the reshoring trend is set to accelerate.*

MUNICH – As US President Donald Trump's administration [prepares](#) to impose "reciprocal tariffs" on America's trading partners, it is clear that firms can no longer assume that their business models will not be disrupted by new trade barriers – and even a full-blown trade war. Could this be the final nail in the coffin of globalization? It is no secret that globalization has been [in retreat](#) for a while. But as my co-authors and I show in a [new paper](#), this process began earlier than many realize, with the 2008 global financial crisis (GFC) as the turning point. From 1990-2008 – call it the period of hyper-globalization – trade, as a share of GDP, rose by more than one percentage point annually, on average. In 2000-07 alone, the share of total inputs advanced economies sourced from developing countries almost tripled. But after the GFC, this expansion ended abruptly, before reversing in 2011, and overall trade growth has since stagnated.

The likely explanation for this change is relatively straightforward: the GFC was the first in a long series of negative shocks. In 2012, the eurozone faced a sovereign-debt crisis. In 2016, the United Kingdom voted to leave the European Union. In 2018, Trump's first administration launched a tariff campaign against major US trading partners, especially China (which continued under [Joe Biden](#)). In 2020, the COVID-19 pandemic began. In 2022, Russia launched its full-scale invasion of Ukraine. And in 2024, Trump – the [self-proclaimed](#) "Tariff Man" – was elected for a second term.

When trade uncertainty is high, so is risk – and that makes global value chains costly. If firms fear that new tariffs might make imports of key inputs more expensive, or that new trade barriers or other disruptions might prevent those inputs from arriving at all, they will question whether buying those items from foreign suppliers still makes sense. With rapid technological advances enabling the automation of a fast-growing range of tasks, they may well conclude that it does not.

In this case, firms might “reshore” production, whether by increasing their reliance on domestic suppliers or by moving production in-house (vertical integration). We found that higher uncertainty in developing economies leads to significant increases in the share of inputs produced in high-income countries – but only in highly robotized industries. In industries where automation is less widespread or feasible, the cost of local labor appears to be prohibitive for many firms.

We also found that, when reshoring, firms tend to favor vertical integration over dependence on domestic suppliers, whether because they want to exercise as much control as possible over their value chains – yet another hedge against uncertainty – or because it is too costly to source inputs from new suppliers. (Building relationships with suppliers typically involves investment, including the provision of knowledge and technology.) Small and medium-size firms are [especially likely](#) to take this route, as they generally lack the sprawling multinational networks that might facilitate a larger firm’s search for new suppliers.

While firms in high-income countries engaged in some reshoring before the GFC, the reshoring response to uncertainty has more than tripled since 2008. The low-interest-rate environment that prevailed for over a decade after the GFC probably contributed to this shift – along with increased risk aversion and advances in automation technologies – by making investment in robots [more attractive](#).

Of course, reshoring is not the only [possible response](#) to uncertainty. Policymakers and consultancies often recommend that firms facing geopolitical, climate, or trade risks bolster supply-chain resilience by diversifying their input suppliers across locations, thereby limiting the impact of disruptions in one or more. But we find little evidence that firms heed this advice, largely because finding new suppliers is so costly.

Moreover, some types of production are highly concentrated geographically. For example, rare-earth minerals and [electric-vehicle batteries](#) originate mostly in China. Another strategy for coping with uncertainty is nearshoring – relocating supply chains to nearby countries, especially friendly ones (friendshoring). But we find little evidence that firms are embracing this approach, either. On the contrary, in industries where automation is an option, countries have been reshoring even from neighbors with which trade barriers are unlikely to emerge. Germany is a case in point: far from shifting production to its fellow EU members in Central and Eastern Europe, where labor costs are lower, it has moved production from those countries back onto its own territory. US firms have also reshored production from Mexico – though, again, having the option to use robots, rather than expensive domestic labor, is essential.

Since the GFC, rising economic, geopolitical, and climate risks, together with progress on automation, have fundamentally changed firms' calculations regarding global value chains, with offshoring viewed as increasingly costly. While firms have reason to keep some production on foreign soil – if it cannot be automated at home – the reshoring trend is likely to accelerate, driven not least by Trump's rapidly escalating trade war. Globalization might not die, but it will never be the same.