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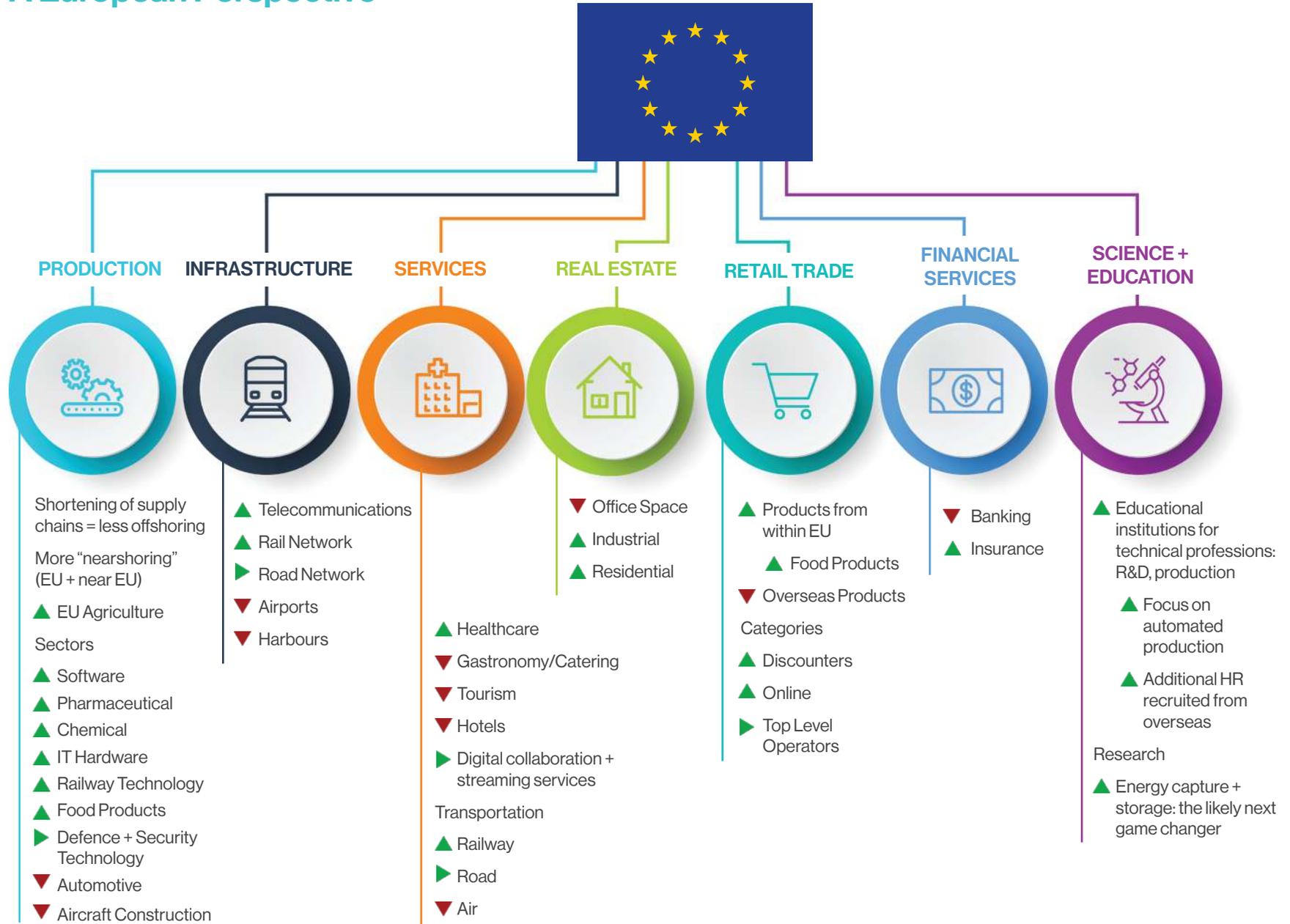
BERLIN • LUXEMBURG

KRIEGER's Perspective on COVID-19

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COVID-19 Medium Term Impact

A European Perspective



Please refer to Note 1

An Introduction

We perceive COVID-19 primarily as a risk factor that threatens our health and that of our loved ones.

Our best researchers worldwide are working on medical solutions. We can be confident that they will succeed and free humanity from this threat.

It is time to realise that the health crisis is nothing more than a tiny needle that causes a big beautiful balloon to burst. It is putting an end to a state of over-extension. The impact of the “COVID-19 needle” on the global economy is more serious and lasting than the health dimension.

The perspective presented in this article is that over the past few decades supply chains for many important industrial goods have developed into a state of over-extension. Cost advantages from the relocation of industrial production to distant locations became risk factors. The costs now caused by a pandemic indicate that these risks have materialised to a large extent already.

The necessary repair work needs to be carried out rationally. This means that scarcer resources must be used strategically with a longer term perspective. The

aim is to restructure national economies in a cautious and circumspect manner. Each sector has its own logic.

It is now possible, with probabilities of well above 50%, to deduce which change is imminent in which sector. There will be winners and losers. Both sides deserve support. Otherwise we would endanger the stability of our societies.

Our “COVID-19 Impact Chart” browses through the expected changes from an EU perspective.

The “COVID-19 Medium Term Impact Chart” is an attempt to describe medium term effects of the pandemic. It is widely self-explanatory. Some points may give rise to discussion, but a consensus on the direction of developments is quickly reached.

Production

The EU is a region with few natural resources. So it is competitive production that is predominantly responsible for the region's prosperity. There is growing consensus that value chains need to be shortened. The point is that the lower cost of human resources in distant locations can be compensated, gradually, by automated production in the Union or in its vicinity.

In the field of financial services, regulators have for some years been emphasising the importance of moving critical IT systems out of offshoring. They wish them to be developed and operated within the Union: "nearshoring". This way of thinking is now being transferred to the industrial sphere.

Cost advantages can still be achieved with nearshoring, but the decisive effect is the reduction of shortfall risks.

Nearshoring may also allow additional risk reductions by diversifying production sites within the Union or in neighbouring countries.

There are already painful bottlenecks in the pharmaceutical industry resulting from excessively long value chains.

Probably the most critical vulnerability we have is in IT hardware.

The very important automotive industry is struggling with technological bottlenecks because consumers are still waiting for drive technologies that offer the performance of combustion engines. The pandemic is increasing consumer reluctance, which has built up over the years.

Aircraft technology will suffer from a new and powerful trend against flying, partly driven by ecological arguments. Public transport will benefit somewhat, but overall Europeans will travel less. The lifestyle adopted in quarantine with less movement over distances has found followers.

Infrastructure

Large parts of Europe suffer from inadequate telecommunications infrastructure. The pandemic made this deficiency abundantly clear. Compensating for this competitive disadvantage will boost the growth of equipment suppliers.

The need to renovate the railway network and, to a lesser extent, the motorway and road networks, is significant.

Additionally, discontinued railway lines can be reactivated.

The construction of new railway lines may be hindered by legal obstacles and tendering procedures that lead to unsatisfactory results. Nevertheless, the renovation works will entail a significant boost in demand for the construction industry.

Ports and airports will feel a reduction in the use of transport routes.

Services

Over the last 20 years, there has been a pressure to cut costs in the health sector almost everywhere in the Union.

At the same time, professional and tourist mobility has expanded to such an extent that existing infrastructures have often reached their limits and many people have increasingly found their own behaviour stressful. The crisis triggered a reversal of trends in both areas. The effects will continue.

First-class electronic means of communication with video functionality have proven their value in the crisis.

However, a significant economic impact in the telecommunications sector is unlikely, as these services are rapidly becoming low-cost or even free.

Real Estate

Some companies have been experimenting for years with the relocation of electronic work to “home offices”. Since March 2020 this suddenly became a necessity. Despite widespread difficulties with inadequate hardware and unstable access to corporate servers, there is now a consensus: the imposed experiment is a success.

If employees no longer come to the office every day, less office space is needed. At the same time, the workplace at home becomes more valuable. This should result in a reduction in demand for office space and a strengthening of demand for residential property.

The demand for industrial real estate should also increase, where new production facilities are to be built, to shorten global value chains.

Retail Trade

The pandemic has done great damage to the retail sector and has given wings to online business.

The effects on European urban structures are painful and only partially reversible. The trends have existed for years and have now become established.

The demand for food from the region has increased.

Established discount chains have the best chances for growth, if they continue to improve the quality of their product range.

Specialist shops will find it more difficult to cover their costs in view of online business.

Financial Services

The crisis of 2020 is not coming from the financial sector. But it is having an impact there by reinforcing existing trends.

The contraction of the economy will lead to credit defaults. Not all bank branches that were closed during the quarantine will resume their operations, some will be closed after a few months. Online services will fill the gaps.

At the same time, the Europeans' love of insurance policies will remain intact.

Science & Education

Europe has a historically developed excellent public and private infrastructure for training technical specialists and for research. There is every reason to expand and strengthen it, also by inviting more experts from overseas.

The electronic media, which have now become popular, can help to meet the growing demand with high-quality teaching or consultation with overseas partners.

We should buckle up for the next major industrial impulse: the very significant investments made over decades in many areas of energy production and storage are gradually leading to the conclusion that the bottleneck factor “expensive energy” will soon be matter of the past.

This change is still a “known unknown”, but well on the way to becoming a “known known”. When it materialises, we will experience this improvement as a structural crisis before we reap the benefits.



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