ESPO keeps going – week 6
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30 April 2020

Driving growth in a post-corona world – keep Europe trading

Over the past weeks all consulting firms and port experts have bombarded us with a multitude of insights and rapid response related thoughtware for the maritime industry. These range from short term suggestions such as cash flow resilience and operational contingency plans to medium & long term strategic plans such as scenario forecasting, strategic realignment, nearshoring and increased digitization.

Today we aim to steer clear of these types of predictions and suggestions. We will focus on a subject that will certainly need to happen, no matter how severe the outcome of the COVID19 crisis. Namely the restarting of our economic activity and growth through (support of) infrastructure investment. We've chosen this topic due to the unique position as ports of both beneficiary of development funding and driver of local infrastructure excellence.

The current COVID-19 crisis has a major impact on both individual citizens and businesses across the globe. The shut down of production, decrease in demand and stagnation lead to a decline in industrial activity across all major sectors. According to the OECD global growth could drop to 1.5 per cent in 2020, half the rate projected before the virus outbreak. In addition, past shocks like the 2008 crisis show us that trade will not necessarily rebound to its previous trend. Trade elasticity (the ratio of trade growth to GDP growth) in the 1990s was often greater than 2, while the long-term average today is about 1.4. In the short term trade volume drops are expected between 13% and 32%, with some recovery in 2021 (Source: WTO).

There is no way around this drop, and as we know from various dashboards like the IAPH initiative, they are already well underway. What we can do, and must do however, as ports, which as we all know are more than piers, is strive to support our local economic environments as best as we can. This is even more the case for ports with a strong public stakeholder structure.

To counter the negative effects of COVID-19, governments are taking action to stimulate the economy on the one hand through monetary policy, and on the other through boosting and expediting infrastructure. With monetary policy unlikely to be (as) effective, governments are looking to infrastructure as one of the key opportunities to drive this stimulus. And ports are more than strategic infrastructures to boost trade, aren't they?

Infrastructure as an economic stimulus is not a new concept. An example of this was Roosevelt's New Deal in the 1930s. The New Deal was an enormous package of public works projects, federal regulations, and financial system reforms enacted by the U.S. federal government. The package was passed in an effort to help the nation survive and recover from the Great Depression of the 1930s. The New Deal programs created jobs and provided financial support for the unemployed, the young, and the elderly; all areas that remain relevant today. This same tactic was pushed following the Global Financial Crisis in the mid-2000s the International Monetary Fund (IMF) encouraged countries to spend on infrastructure to help create jobs and drive economic growth.

With cash flows at short hand, our first intuition is to put infrastructure investments on hold, this goes for governments, local authorities as well as port authorities. Even though this is a correct short term natural response, it only aggravates the eventual downturn after the crisis. Infrastructure development directly influences productive capacity of the area, it provides a significant unemployment buffer in the short term through direct employment and increased demand and finally, social outcomes are better planned for and achieved by infrastructure spend than for example monetary policy. And while the focus is understandably on other matters right now, climate change cannot be forgotten. The spinoff of COVID19 on the crashing oil prices will put extra pressure on valuation and feasibility of green investments.

Infrastructure investment projects should all continue at the fastest pace possible in the current climate as it provides the base load for the sector and can shield the economy from further job loss; this of course needs to be balanced out with what is a responsible health response to COVID-19. Responsibilities for enabling this growth vary. Governments should consider some of the regulatory impediments that will inhibit or slow growth. Local authorities and ports should strive to support local businesses in development of new initiatives and further focus on their existing asset base, improving efficiency, resilience and broader cross-sector economic impacts through precincts and using technology to transform and de-risk delivery.

In the short term economic recovery can be bolstered. Increase the spend on asset management and maintenance. Take a precinct approach to new opportunities upfront planning and prioritisation can create short-term stimuli to economic growth. And finally use technology to help deliver infrastructure more efficiently from a time and cost perspective, minimizing COVID risk.

In conclusion, to build further on previous columns, digitization, near shoring, and resilient transport infrastructure will probably become more important over time. Infrastructure and new development projects will be needed to support this shift. As engines of local wealth, production and wellbeing, ports have an important role to play. Governments need to support and drive top down infrastructure plans. But ports have just an important role towards their own stakeholders and need to shift the focus into investing in the existing asset base, improving efficiency, improving resilience, improving broader cross sector economic impacts through precincts and using technology to transform and de-risk delivery.