

## **The World Economy before, during and after the Pandemic<sup>1</sup>**

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*The article discusses the state of the World Economy before, during and after the Pandemic. The state of the Georgian economy has been analyzed, the external trade analysis of Georgia in the conditions of the pandemic has been made. Certain approaches have been developed in order to formulate recommendations for the Post-Pandemic Economy.*

*The 21<sup>st</sup> century knowledge of the World Economy is somewhat similar to knowledge of the 20<sup>th</sup> century World Economy until 1929. Then and now everyone thought that everything is studied in economic science, we know everything well and we have the answers to all the challenges. It was also the characteristic of the recent period that the crisis of 2008 (also, atypical) had already occurred, but no relevant conclusions had been drawn. The feature of the 2008 economic crisis was that the crisis started not from overproduction or other economic fields, but directly from the financial sector. Overcoming the crisis was made possible by mobilizing huge financial resources, although the mechanism and underlying causes remained unexplored. The crisis of 2020 is completely different, we can directly call this crisis “artificial”, because the decision to stop economic activity was made independently, we made economic sacrifices to save people’s lives. It will be too hard to get out of the crisis, as the rush demand for products before the crisis has become a certain safety cushion for future reduced sales. This issue was well thought out by those who are in power in all states and they named the dates of the economic downturn from the very beginning. And yet, what did the crisis show? What lessons should we learn and what should we consider in the future? What are our export potential and opportunities? Which markets should become the best for better use of export potential?*

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1 Article is based on the Georgian version printed previously, statistical figures are re-shaped.

*Georgian economists have expressed their positions on these issues (see ref: 1-13).*

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**JEL Codes:** *I10, I11, I18*

## **The World Economy before the Pandemic**

Before the pandemic, everything seemed to be clear in the world economy - there were different economic clusters - economies focused on highly developed technologies and services, highly developed resource-rich economies; Rapidly emerging economies trying to move from manufacturing to technological activities; Emerging economies looking for their place in the world economy and low-developed, survival-oriented economies. Unfortunately, we belong to the third type. The unconditional advantage of the "Washington Consensus" was recognized and all national governments were advised to act in this direction. It should be noted that abate the taxes, deregulation of the economy, weakening the currency control have become very popular all over the world. Less attention was paid to the fact that after the initial rapid growth, which is mainly explained by the establishment of an elementary economic order, states faced serious problems in terms of economic growth. The slogan - market will regulate everything probably worked the most at the end of the 19<sup>th</sup> century when the technological level was very low. Globalization itself has created a competitive phenomenon of globalization - on the one hand, it must constantly improve its own performance, and on the other hand, it helps others to improve their performance and become more competitive. The constant growth of mass production at the same time destroys the opportunities for growth of production. Steady growth in demand is essential for economic growth, which is virtually impossible in developed countries where very high levels of consumption are achieved, on the other hand those who create material things receive such a low payment that they cannot become consumers of these products. That is, we have to produce where it is cheap, for those who can afford it, and those who produce cheaply cannot become buyers themselves because they have to be paid cheaply.

The global economy should have emerged from this paradox as before after a certain crisis. The well-known financial capitalism in economic theory

should have changed, but with what? A certain part of the scientists took into consideration an increase of role and importance of information and hence the new phase was called the information phase. Industry 4.0 emerged. Ideas where the focus shifts to aspects such as large databases, augmented reality, cloud technologies and quantum computing. In fact, economic crisis should occur, and that is why world-renowned intellectuals were talking about the necessity of this fact. Its shape was unclear. However, in the world economy, when the level of interdependence had become so high, it was enough for one of its major players to face the problems that these problems would quickly become global. The crisis started in 2008 in the US and in 2020 in China. The first one has been overcome as the crisis in the financial sector has been localized, the second crisis has affected all sectors simultaneously and every state is trying not to let this crisis affect the financial sector, then there will really be a global crisis. Maximum globalization of economic ties should have objectively reached the threshold when further globalization would take place with the deepening of political unions, or in one place a small problem would become global. Thus, the economic paradox of globalization can be formulated as follows: The globalization of economic ties makes the sustainability and security of the economic system more and more fragile. Each subsequent global connection to achieve efficiency makes the system even more vulnerable. Thus after the pandemic the world economy will be different.

### **The World Economy during the Pandemic**

The pandemic has shown that human life is indeed the highest value in the modern world. Virtually all states, made the hardest (in economic terms) decision and stopped their own economies. In this case, the goal was highly humanistic - the lives and health of people. It is good that world leaders have unanimously acknowledged Kant's moral imperative - one cannot quantify the lives of people, there is something that has no price, it is priceless. Pandemic economies are very similar to war mobilization economies, where money circulates freely, although there are elements that are very valuable: access, permission, permit, etc. Fortunately, at this stage there is no shortage of food in the world, which would inevitably lead to the launch of direct distribution systems and coupons typical for mobilization economies. The mobilization economy that is not good has been seen by everyone, but it was the only response to a hitherto unknown

threat. As always, the defenders of the autarky farming have reappeared, whose main motto is, no matter what it costs, we produce ourselves. Unfortunately, as it turned out, the production of such a technologically simple product as a mask is quite difficult and local production could not cope with this task. Perhaps in the future it is better to have ample supplies of this type (personal care ones) products, which should be managed and operated by the Ministry of Health.

At the same time the pandemic showed different adaptation skills. If we consider the example of Georgia, then it is clear that the education and health systems have shown very high adaptation skills, and in fact this high adaptability should become the basis for sustainable competitive advantage for Georgia. When it comes to reorientation of production capacities, it is clear that this will happen and will happen depending on how adaptive the health and education systems are. The pandemic has once again shown how easy it is to deliver products and services where the customer and the seller do not necessarily have to interact in real time or in other words the customer does not need to be present to receive the product or service. However, where this is necessary there has arisen insuperable resistance, haircuts, surgical assistance, and so on. A standard application for repairing a car in the future will allow the customer and the service provider to remotely communicate with each other, agree on basic service settings, make acceptance and refunds. Unfortunately, it will not be possible to provide personal care services remotely. However, we should not rule out the emergence of special programs and training courses where users are explained and taught how to perform these procedures. The pandemic has shown that in the future it will be possible to maximize process automation, allowing us to take advantage of remote action. Most of all the pandemic has shown us the problem of job sustainability in the future. In fact, jobs will move to virtual mode, which has both positive and negative aspects. The pandemic has also shown us that the modern system of social protection has become the biggest problem for the financial sustainability of states. After the pandemic, public debt will increase in all countries. It is thus advisable to reconsider pension systems now and move them entirely on a voluntary basis. States will no longer be able to pay future pension amounts thus tax reform must be implemented on the one hand and pension reform on the other. In 2021, we should tell the population who have reached the age of 18 that they can no longer receive an old-age pension, at the same time their income tax must be reduced by 2%, and this amount they can use at their discretion. This will be

one of the models we have to discuss. A pandemic is a good time to re-evaluate values. Also a very strong impetus will be given to the use of 3 dimensional printing technologies, everything that will be related to local resources. It is advisable to re-evaluate the existing mineral and construction resources, as well as to create products based on these resources using the ultra-modern technologies.

In this context, it is advisable to consider the indicators of external trade of Georgia. Many publications on the problems of external trade of Georgia have been published, a fundamental monograph has been drawn, where the problems of external trade are analyzed (1).

Since at this stage we have only the figures for the third Quarter of 2020, the comparison should be limited to these figures.

For Georgia, as a small and open economy, the global crisis is always very painful, the opening of foreign markets and the placement of Georgian exports in these markets is one of the preconditions for economic growth. In addition to the low diversification of Georgian exports, the small number of export commodity groups exacerbates this problem. It should also be noted that in the three Quarters of 2020 the world was only entering an economic crisis and thus we have worse days ahead in economic terms. In the three Quarters of 2020, exports fell by 12.1%. A further decline in imports will lead to a halt in the tourism industry and to some extent will alleviate the problem of trade deficit. Thus it is very important for us to analyze the decline in exports. For this micro-analysis we have selected 4 commodity groups in Georgian exports: Ferro-alloys, wine of fresh grapes, medicaments and nitrogen fertilizers. The data are given in Table.

Such an analysis is necessary in order to correctly determine both the demand price and other parameters. Except for wine of fresh grapes, where the value ratio has decreased slightly from \$ 3.15 to \$ 3.06 per conditional bottle, elsewhere there is a decline. Given that the large share of exports comes from the Russian Federation, where the epidemiological situation is worsening, the future fate of this commodity group is also very difficult to predict. In all other cases we have a decrease in value ratio. This is especially true of medicaments where the physical quantity of the product has also been reduced, as well as its value ratio. In other words, low value-added products remained. We can also assume that due to the coronavirus pandemic there was an increase in demand for personal care medical products, which objectively reduced the demand for existing products.

## Major Commodity Groups by Exports in Georgia

|   | January–September 2019 |                    | January–September 2020* |                    | Change (%) |
|---|------------------------|--------------------|-------------------------|--------------------|------------|
|   | Thousand USD           | Share in Total (%) | Thousand USD            | Share in Total (%) |            |
| <b>Total Exports</b>                        | 2 735 328.0            | 100.0              | 2 403 464.8             | 100.0              | -12.1      |
| <b>Of which:</b>                            |                        |                    |                         |                    |            |
| <b>Copper ores and concentrates</b>         | 474 824.9              | 17.4               | 541 657.8               | 22.5               | 14.1       |
| <b>Motor cars</b>                           | 485 267.2              | 17.7               | 304 176.6               | 12.7               | -37.3      |
| <b>Ferro-alloys</b>                         | 240 005.0              | 8.8                | 180 304.7               | 7.5                | -24.9      |
| <b>Wine of fresh grapes</b>                 | 152 119.7              | 5.6                | 143 274.8               | 6.0                | -5.8       |
| <b>Spirituous beverages</b>                 | 77 839.3               | 2.8                | 86 274.3                | 3.6                | 10.8       |
| <b>Mineral and aerated waters</b>           | 97 834.3               | 3.6                | 81 288.6                | 3.4                | -16.9      |
| <b>Precious metal ores and concentrates</b> | -                      | -                  | 77 311.6                | 3.2                | -          |
| <b>Medicaments put up in measured doses</b> | 141 871.5              | 5.2                | 71 518.8                | 3.0                | -49.6      |
| <b>Gold</b>                                 | 53 084.9               | 1.9                | 68 763.1                | 2.9                | 29.5       |
| <b>Nitrogenous fertilizers</b>              | 71 335.5               | 2.6                | 56 320.7                | 2.3                | -21.0      |
| <b>Other commodities - total</b>            | 941 145.8              | 34.4               | 792 573.8               | 33.0               | -15.8      |

In the case of Ferro-alloys (price per ton declined from 1103 to 979 \$) and nitrogen fertilizers (price per ton declined from 192.8 to 150 \$) the downturn is quite high, which indicates that both of these areas will need serious assistance from the government. These products are a happy exception when industrial products have been preserved since the Soviet period. The enterprises producing these products are the most important industrial centers for the whole regions and their maintenance is essential. The severity of this problem was indicated by Academician Papava V. (10). Thus with high probability we should assume that a further downturn in the world economy will weaken the demand for these products, while the absence of demand from the local market cannot alleviate the severity of the blow even by a small percent. In this situation, it is advisable to consider the range of products obtained as a result of further processing of Ferro-alloys and to give priority to companies working in this field. It is possible for them to establish a special economic environment if they invest in Georgia. Unfortunately, after the pandemic, the economic boom will still be linked to increased access to foreign markets, the task for Georgia will be the same - to create higher value-added industrial products and deepen globalization.

### **The World Economy after the Pandemic**

The arguments that the world economy will become more autarkic after the pandemic lacks a serious scientific basis. Medical / epidemiological requirements for all types of products will change and definitely be tightened, which gives countries like Georgia, in case of certain purposeful work, a certain opportunity to attract new production capacities on its territory. In other words, the open advantage of foreign markets is accompanied by the supply chain shortage and good medical / epidemiological situation<sup>1</sup>. It is somewhat possible to achieve some success with a combination of these factors. However, after the pandemic, the world economy will continue to strive for globalization. It should also be noted that the fact that the paradox of globalization - each subsequent stage of globalization - makes the global economy more invasive, and the way out of the crisis is possible by deepening globalization - remains unchanged.

The fact is that the digital economy has been given a very strong practical impetus. One of the demonstrations of this will be the rapid growth of network companies, the transition of higher education to remote mode, the acceleration

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<sup>1</sup> Honestly for the end of year this situation worsened dramatically.

of the formation of virtual stores, where it will be possible to study the products in more detail, through appropriate programs.

For example, measuring clothes virtually. In such a situation, the “Red Queen” phenomenon created in the era of globalization will become even more relevant and global competition will intensify. In such a situation, the quality and speed of access to communications acquires a completely unique importance. Georgia should be focused on attracting such companies in the medium term. Virtual space companies have low costs, so offering standard taxation will not be effective. It is advisable for Georgia to consider mechanisms for registering and taxing companies by mailing address or web address. Such an approach will be necessary in order to attract new investments; it is also advisable to offer large capacity pharmaceutical companies to transfer production capacity to Georgia. For a period of time, these companies should be exempt from taxes altogether, and the income tax of the employees of the company should be fixed at the level of 10%.

The announcement of a program to promote local production is certainly a step forward, although this program needs to create a modern industrial policy. On the one hand, Modern industrial policy must combine existing resources and, on the other hand, bring together various advantages of Georgia.

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## მსოფლიო ეკონომიკა პანდემიამდე, პანდემიის დროს და პანდემიის შემდეგ

**გიორგი ღალანიძე**

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სტატიაში აღნიშნულია, რომ პანდემიამდე მსოფლიო ეკონომიკის განვითარების წამყვან ტენდენციებს წარმოადგენდა მისი კლასტერიზაცია, ინფორმატიზაცია, კერძოდ კი 4,0 ინდუსტრიის გაჩენა, გლობალიზაცია და ეკონომიკის ფინანსიზაცია. 2008 წლის გლობალური კრიზისი აშშ-ს ფინანსურ სფეროში წარმოიშვა და აქვე მოხდა მისი ლოკალიზაცია. 2020 წლის კრიზისს სრულიად განსხვავებული ხასიათი აქვს. მას პირდაპირ შეიძლება ეწოდოს „ხელთქმნილი“, ვინაიდან ეკონომიკური აქტიურობა მთელ მსოფლიოში შეჩერებულია და ეკონომიკური მსხვერპლი გაღებული, რათა გადარჩენილ იქნას ადამიანთა სიცოცხლე, როგორც უპირველესი და ყველაზე მაღალი ფასულობა. პანდემიით გამოწვე-

ულმა ეკონომიკურმა კრიზისმა აჩვენა, რომ ჩვენთვის უაღრესად მნიშვნელოვანია ეროვნული წარმოების განვითარება, რომელიც, პირველ რიგში, ადგილობრივი რესურსების გამოყენებასთან იქნება დაკავშირებული. ულტრათანამედროვე ტექნოლოგიების საფუძველზე უნდა მოხდეს ადგილობრივი რესურსების გამოყენებით გლობალურად კონკურენტუნარიანი პროდუქციის შექმნა. ამ კონტექსტით სტატიაში გაანალიზებულია საქართველოს საგარეო ვაჭრობის მაჩვენებლები და გაკეთებულია დასკვნა, რომ პანდემიის შემდგომ პერიოდში საქართველოს ეკონომიკის აღმავლობა კვლავ დაუკავშირდება საგარეო ბაზრებზე ხელმისაწვდომობას, რისთვისაც აუცილებელია მაღალი დამატებული ღირებულების მქონე სამრეწველო პროდუქციის ხვედრითი წილის გაზრდა ექსპორტის საერთო მოცულობაში. ასევე მეტად მნიშვნელოვანია სამეწარმეო აქტიურობისათვის მაქსიმალური ხელშეწყობა და ახალი კომპანიების შექმნა დასაქმების გაზრდის მიზნით. გადასახედია დაბეგვრის სისტემა და ამ თვალსაზრისით აქტუალურია საფოსტო ან ვებგვერდის მისამართებით კომპანიების დაბეგვრის შესაძლებლობების გამოყენება.

**საკვანძო სიტყვები:** პანდემია, მსოფლიო ეკონომიკა, გლობალიზაციის პარადოქსი, ულტრათანამედროვე ტექნოლოგიები, მაღალი დამატებული ღირებულება, ექსპორტი.

**JEL Codes:** I10, I11, I18