

Why Pandemic Push Changes in the Economy?

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10 months gone since the outbreak of COVID-19 - novel coronavirus, which killed more than 1 million people already become the cause for a new understanding of issues related to geo-economy and geo-politics.

its own scale and spread rate, according to official data already counts around 56 millions infected people in more than 200 countries worldwide, the coronavirus has become a global pandemic. The pandemic already having a growing impact on the behavior of the world community, instead of the usual medical consequences.

The economic crisis caused by the Covid-19 is primarily faced on the agenda of developing countries, whereas the economy is experiencing a shortage of the real sector and the negative balance of foreign trade is being balanced by attracting tourism sector and FDI.

The threat of the long scale economic crisis and recession in the post-pandemic period is also faced for the developed and economically strong countries. The crisis hits a number of the economies and prompting governments to use the monetary and fiscal instruments to stimulate the economy in the short and medium term, while long run, crisis poses a wide range of challenges and puts the issue of a new understanding of economic policy in the modern agenda. The main purpose of the paper is to analyze some issues of local and international economy.

Keywords: *Coronomics; international economics; economic policy; international trade.*

JEL Codes: *E60, E61, E65, G18*

Introduction

In the history of world evolution, aside to formation of the economic and financial systems, temporary crashes are not new. At different times, crises have always been experienced in different countries. However, within the rise of globalization and economic interdependence, modern crises are gaining much huge effects on social and economic systems.

Each crisis pushes economic agents, regardless of their size to start new understanding of reality. At the same time, role of the government backed states, as the largest economic agent is growing and in an attempt to make the “invisible hand” more seeable, which helps others to form new behavior. Same happened in the 1930s, when President Roosevelt rejected the previous laissez faire policy and offered to the nation a new deal course in the post-crisis period, which led to the formation of a new economic doctrine later, which increased the role of the government in the economy. It supported the growth of the state role in the economy. Such a transformation of thoughts on economic policy was an important theoretical coup in the United States.

The biggest financial crisis since the Great Depression, which started in the United States again in 2008 and soon led to the global recession and economic crisis, posed a completely new challenges to the current financial systems at the time. Since this period, the role of international financial institutions has significantly strengthened in term of the financial and economic stability.

After two of the world’s largest and many other relatively small-scale local economic crises over the past decades, there has been a surplus of knowledge and theoretical experience about such crashes. It is primarily conveyed in scientific studies based on empirical data. The existing research and knowledge should have been used by governments and economists in the different countries to avoid possible crisis in the future and define policy.

The economic crisis which became actual shortly since the outbreak of COVID-19 virus pandemic is characterized by a different anatomy due to its nature. Unlike the previous crises, which experienced well-established financial and economic basis, the current crisis is significantly different. This time, the cause the crisis haven’t financial of economic source, but the roots come from medicine. The current situation makes the economy a hostage of medicine (Papava, 2020), which is dramatically different phenomenon from the previous crashes.

Unlike the economic crises over the last decade and century, the economic crisis caused by pandemic affects many sectors of the economy. While it puts into the agenda necessity of rethinking existing policy on international trade,

production chain and generally structure of the economy. This requires in depth research, which is the aim of this article.

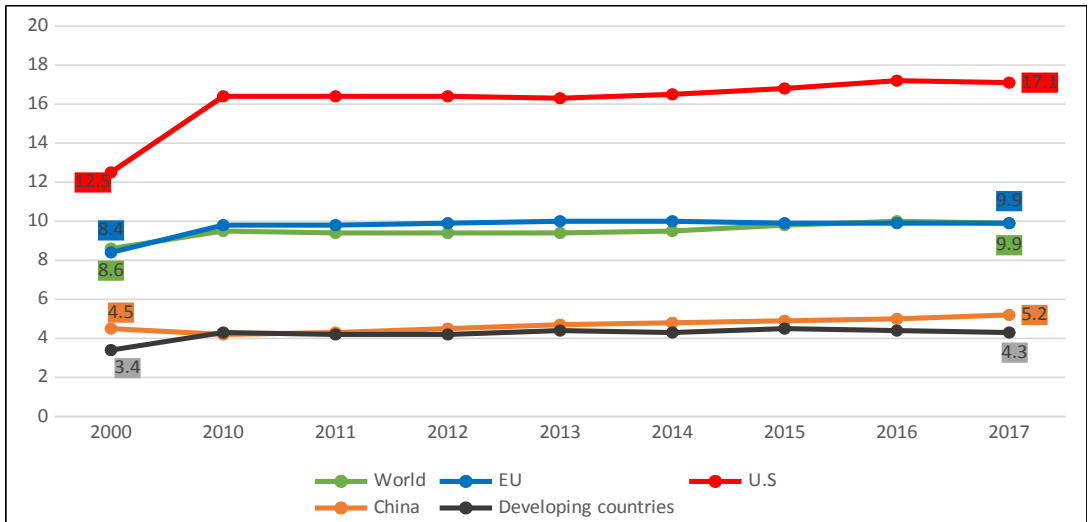
1. Public Healthcare Policy

In parallel with growing of the world economy and population, discussions on public health funding were actual in scientific and political societies. Till now, different thoughts on the healthcare system have been one of the main issue for domestic political positioning in various countries.

Since the beginning of post-pandemic period, current approach of healthcare funding and social policy would change significantly, thanks to the Coronavirus. Because the Corona crisis has shown that sustainability and high productivity of the healthcare system is not only a matter of social responsibility of governments, but it is directly related to the economy, social stability and security.

Public Healthcare Expenditures, GDP %

Figure 1



Source: World Bank (26.04.2020)

According to The WHO, the amount of money spent by different countries on public healthcare financing is disproportionate. (See figure 1) The difference is particularly noticeable in developing countries. According to the World Bank, developing countries spending an average only 4.3\$ of GDP on public healthcare

(World Bank, 2019), which is two times less than the world average. Such an imbalance puts the healthcare system of many countries and the economy as well at significant risk.

However, according to the presented data, it's no doubt that financing of the public healthcare system haven't increased in the recent years. For comparison, if in the 2000-2010 the annual expenditure of countries on public healthcare increased on average from 8,6% to 9,5% of GDP, in 2010-2017 this increase was only 0,1%. The situation is even more worth is in developing countries, where the annual cost of healthcare system hasn't increased since 2010 and averages only consist 4.3% of GDP. (World Bank)

Spreading of the virus has made more clear that the healthcare systems in many countries isn't properly prepared to defeat such a large scale challenges. It makes a significant threat to both social and economic stability. After the corona crisis, the dynamics of annual growth in public health funding is expected to change principally. We can conclude that, increasing funding of the sector will inevitably lead to more development of the medical industry as an economic sector.

2. Transport and Tourism Industry

The transport and tourism sectors are the areas with most affected by the coronavirus. According to the International Air Transport Association (IATA), the capacity of civil aviation has been increasing stable in the recent years. In 2019, compared to the last year, the flow of passengers carried increased by 4,2%, and in the first quarter of 2020 increase was 4,1%. Meanwhile from 2011 to 2019, the net profit of the aviation industry increased 3,5 times and amounted to \$29,3 billion. (IATA)

Since the beginning of the pandemic, countries imposed restrictions and banned thousands of domestic and international flights worldwide. It strongly damaged aviation sector yet in the the first half of February. The suspension of air traffic with China and Hong Kong, caused hundreds of millions of dollars loose for world's leading air carries in a short term period. Following then, since March 14, United State banned regular flights from European countries and rest of world started massive ban of international flights in the history of aviation.

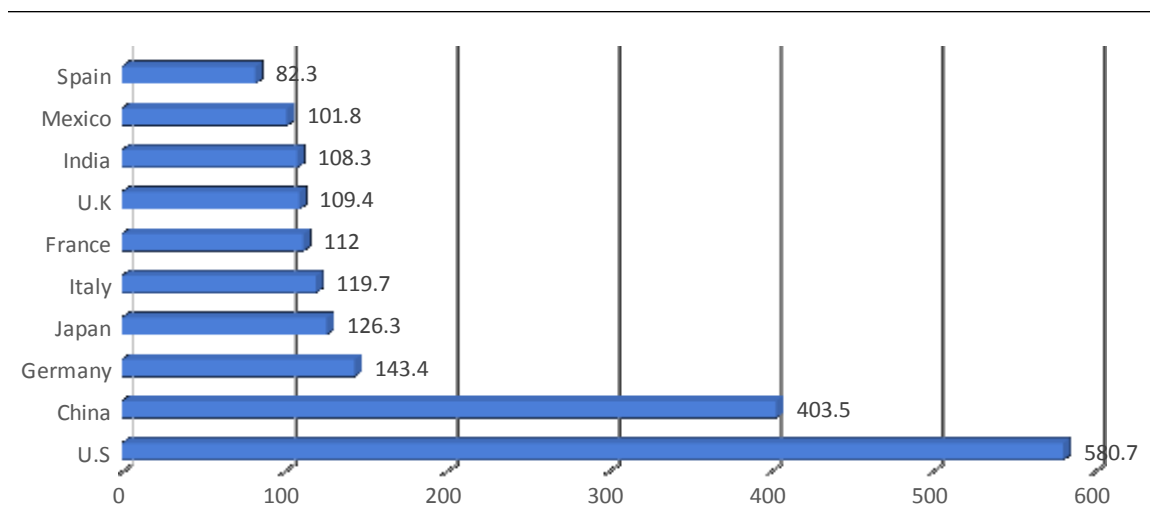
However, during the epidemic countries didn't ban the cargo and Carter flights, but within the cancellation of regular flights large airlines suffered a heave financial losses. Due to the situation, the value of shares of leading air carriers immediately decreased sharply on stock exchanges. Meanwhile, airlines predict a significant decrease in demand during the post-crisis period, which will

cause reduction flights and rise prices in the short and medium term period.

Reducing regular flights will inevitably affect to the tourism industry. The tourism sector has been characterized by growing dynamics in recent years. In 2018, the contribution of the tourism sector to the world total GDP was \$8,8 trillion. According to the World Tourism Organization, by 2019 the contribution of tourism to the world GDP has increased to \$8,9 trillion and its share was 10,3% of total productivity. During the same period, the sector created 330 million jobs worldwide. At the same time, \$948 billion was invested in the tourism sector by the end of year.

Tourism Sector Volume in different countries \$bln (2019)

Figure 2



Source: World Tourism Organization (26.04.2020)

According to data, United States got largest contribution to the total GDP from the tourism sector by the 2019 (\$580,7 billion) and China followed by \$403,5 billion. (WTTC) Four of the top ten high income countries are members of the European Union - Germany (\$143,4 billion), France (\$112 billion), Italy (\$119,7 billion) and Spain with \$82,3 billion. After the coronavirus epidemic, which hit major tourist destinations hard, tourism revenues are expected to fall sharply in the second and third quarter of 2020.

The share of the tourism sector in the economy is particularly high in the less developed and developing countries, where industry creates a large slice of jobs and contributes significantly to the formation of current accounts balance. For example, according to the data from the World Travel and Tourism Council

(WTTC), by the 2019, the direct and indirect share of tourism sector in the GDP of Brazil was 8,1%. For India the same rate was 9,2% in 2019 and the number of jobs created by the industry exceeded 42 millions. For the Dominican Republic in the Caribbean, tourism sector accounts for 11,6% of GDP and revenues from foreign tourism in Georgia amounted to \$3,22 billion (+19,1% since the last year) while its share in the country's GDP increased from 6,8% to 7,6%.

According to report by the World Travel and Tourism Council, the virus had an impact on the growth of the tourism industry since the beginning of outbreak. According to the study, as early as February, when WHO declared COVID-19 as the global pandemic and significantly reduced air traffic, world tourism fell by 4,7% and was expected to fall by 16,4% in the next quarters. (WTTC).

World Tourism Recovery Potential 2020

Table 1

| | |
|----------------------|--|
| Best case scenario | <ol style="list-style-type: none"> 1. 98.2 mln. jobs cut -30% vs 2019 2. -\$2.686 bln. GDP -30% vs 2019 3. -41% International visitor -26% Domestic visitor |
| Medium case scenario | <ol style="list-style-type: none"> 4. 121.1 mln. jobs cut -37% vs 2019 5. -\$3.435 bln. GDP -39% vs 2019 6. -53% International visitor - 34% Domestic visitor |
| Worst case scenario | <ol style="list-style-type: none"> 7. 197.5 mln. jobs cut -60% vs 2019 8. -\$5.543 bln. GDP -62% vs 2019 9. -73% International visitor -64% Domestic visitor |

Source: World Travel and Tourism Council wtcc.org/Research/Economic-Impact

Since the beginning of March, many countries have launched critical measures to combat against the virus, which is primarily consists social distancing and limited mobility of international visitors. Therefore, it is expected that the negative statistic of revenue reduction in tourism sector will increase further for the next quarters of 2020, which may affect to the future of the industry and people employed there.

According to a study by the National Tourism Council in the post-pandemic period, three alternative scenarios are being considered for the recovery of the sector. (Table 1) The difference between them depends on how effectively the countries could implement the anti-virus protocol and within what timeframe they will lift the restrictions on local and international movement that takes effect after the onset of the pandemic. In the post-pandemic period, tourism-oriented economic policy are expected to be significantly revised in many

countries. Current outbreak and related Coronomic process have made it clear that the tourism industry is quite volatile in the face of such kind crises and focused on this sector and adjusting economic policy to it may be disastrous in the long term. This issue will be relevant especially for developing countries, where the tourism sector characterized by growing dynamics and plays a larger share in national GDP each year. The necessity to reboot economic policy will put into the agenda issue of “reviving” the real sector of the economy, which will further ensure the stability of such countries in the longer term.

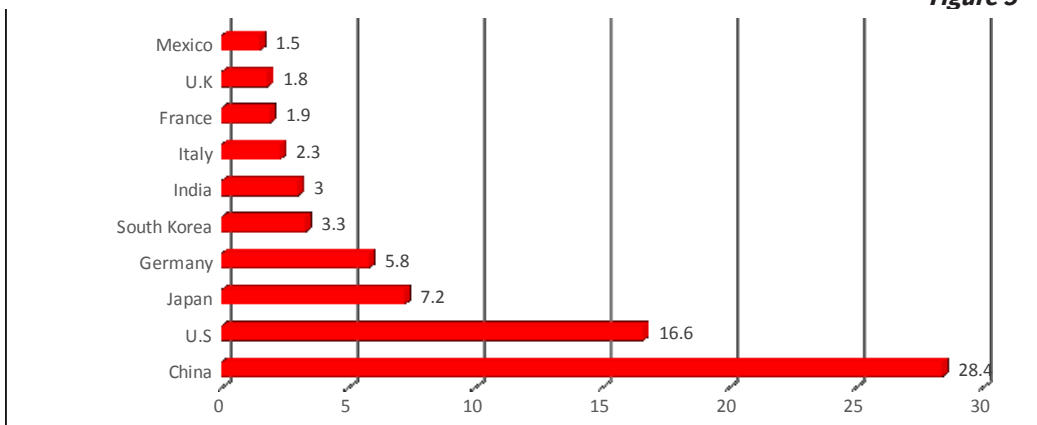
3. International Economy and Trade Swings in the Post Pandemic Era

The Covid-19 outbreak except to healthcare and national economy has also raised issues related to the international economy and trade. Following the spread of virus, Chinas was the first country where total quarantine was announced. As a result, the outcome of large factories and enterprises in various provinces that provided products or raw materials to the economy of the U.S and other countries were significantly reduced.

According to the UN Department of Statistics, as of 2018, the largest share of world production outcome comes from China (See Diagram 3). Due to the existence of cheap labor and high production capacity, China has become a hub of world production in the last decade. The growth of China’s economic activity has caused a shortage of trade in many countries, which in the long term may lead to an increase in Beijing’s economic and political influence around the world (Benashvili, 2020).

World Manufacturing Outcome 2018 6. %

Figure 3



Source: United Nations Statistic (26.04.2020)

Within the using cheap labor and flexible manufacturing circle, China makes many countries in non competitive position and dependent on Beijing. Pandemic makes more clear that a number of economically developed countries were even deprived the ability to produce critical medical products during the spread of virus.

In addition to the economic points, Coronomic also raised political issues. This is primarily indicated by the anti-Chinese rhetoric initiated by the world's political leaders. After the end of the pandemic caused by the "Chinese virus", it's probably expected that the trends began during this period will be reflected in the international economy in the post-covid era, which primarily lead to a changes of the attitude of the rest of the world towards to China.

The dilemma of trade policy with China has been on the agenda of many leading countries for the past few years. In this regards, the US-China trade tension in one of the most important issue in the international economy. Amid the global pandemic started in China, a number of countries are already announcing the mobility of their own production from China. One of the first steps in this direction has been taken by Japan, who has set up a \$2 billion for stimulate local enterprises to cut China from their production chain. Meanwhile, according to the British foreign secretary, after the end of pandemic, cooperation with China will no longer be as it was before the outbreak. At the same time, Western countries blame China of hiding information about the virus, as evidenced by the sharp statements of political leaders. Whether the COVID-19 virus will cause a new Cold War in the world will be known after the defeat the virus, however it is already clear that virus based economic crisis may be a solid basis for this.

Conclusion

Following the mentioned circumstances, no doubt economy generally faced significant challenges in the post-pandemic period. Within remaining confrontation between the Western states and Beijing and the withdrawal of industrial sector from China, a new opportunities arises for developing countries to offer these firms alternative labor markets for the production chain. This will probably change the world production chain and may even lead a shift in the balance of power in the international economy.

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რატომ ხდება პანდემიური ცვლილებები ეკონომიკაში?

გიორგი ბენაშვილი

დოქტორი

ივ.ჭავჭავაძის სახელობის

თბილისის სახელმწიფო უნივერსიტეტი

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COVID-19 - ახალი კორონავირუსის აფეთქებიდან 10 თვე გავიდა, რომელიც 1 მილიონზე მეტი ადამიანი იმსხვერპლა. ეს მოვლენა უკვე გახდა გეო-ეკონომიკასა და გეოპოლიტიკასთან დაკავშირებული საკითხების ახლებუხად გააზრების მიზეზი.

ოფიციალური მონაცემებით, უკვე 56 მილიონამდე ინფიცირებული ადამიანია მსოფლიოს 200-ზე მეტ ქვეყანაში; საკუთარი მასშტაბისა და გავრცელების სიჩქარით კორონავირუსი გახდა გლობალური პანდემია, რომელსაც უკვე მზახდი გავრცელება აქვს მსოფლიო საზოგადოების ქცევაზე.

Covid-19-ით გამოწვეული ეკონომიკური კრიზისი, პიკზედ ჩივში, განვითარებადი ქვეყნების დღის წესრიგში დგას, სადაც ეკონომიკა განიცდის ზეგავლენას სექტორის დეფიციტს და საგარეო ვაჭრობის უაჩყოფითი ბაზრის დაბადანსებულობა გულისხმობს სექტორისა და პიკდაპირი უცხოური ინვესტიციების მოზიდვით.

პოსტპანდემიის პერიოდში გეგმავადიანი ეკონომიკური კრიზისისა და ჰეცესის საფრთხე ემუქებათ განვითარებულ და ეკონომიკურად ძლიერ ქვეყნებსაც. კრიზისი აჩაჩხთ ეკონომიკას აჩყვეს და მთავრობებს უბიძგებს გამოიყენონ მონეტარული და ფისკალური ინსტრუმენტები ეკონომიკის სტიმულირებისთვის მოკლევადიან და საშუალოვადიან პერსპექტივაში, ხოლო გეგმავადიან პერსპექტივაში კრიზისი გამოწვევების ფაქტორ სპექტრის აყენებს და ეკონომიკის ახალი გააზრების საკითხს სვამს თანამედროვე ეკონომიკური პოლიტიკის დღის წესრიგში. ნაშრომის ძირითადი მიზანია ადგილობრივი და საერთაშორისო ეკონომიკის ზოგიერთი საკითხის ანალიზი.

საკვანძო სიტყვები: კორონავირუსი, საერთაშორისო ეკონომიკა, ეკონომიკური პოლიტიკა, საერთაშორისო ვაჭრობა.

JEL Codes: E60, E61, E65, G18.