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ფიქრები
უცვლელ
სამყაროზე
REFLECTING
ON A CHANGED
WORLD

მომნებების მემორი
IN LIEU OF MEMORIES

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ON THE COVID-19 PANDEMIC ECONOMIC CRISIS AND THE REORIENTATION OF THE GEORGIAN ECONOMY

Vladimer Papava

The switch to a knowledge-based economic model is inevitable

The world faces a new challenge from 2020, as the novel (COVID-19) spread on a massive scale and the World Health Organisation Director General Tedros Adhanom Ghebreyesus recognised the spread of the virus as a pandemic on 11 March.¹

It is noteworthy that medicine now faces a most complicated challenge. From the very beginning, there was unfortunately no drug that worked against this specific disease, there is still not one as of up today and it was said immediately after the virus started to spread that at least 18 months would presumably be necessary to produce a relevant vaccine. It should also be kept in mind that doctors cannot say precisely how the virus may behave. The importance of this epidemiological problem is due to the fact that it has had an impact on effectively all spheres of our life.

It is a fact that many countries did not take the spread of COVID-19 and the disease seriously. As a result, the more or less efficient measures they took to restrict people's behaviour were belated. The United States, United Kingdom, Italy, Spain and Brazil are prominent among such countries. They suffered major damage because of this. Sweden and Belarus are especially noteworthy, as they did not introduce any restrictions, but Sweden admitted later that the results they received were quite complicated. As regards Belarus, it is difficult to assess the real situation there because of the authoritarian regime, which severely limits the dissemination of information it finds undesirable.

The attempts of authoritarian regimes to conceal the epidemiological situation in their respective countries were not at all unexpected, but after it became obvious that the virus was spreading on a broad scale, some of them had to admit that the epidemiolo-

1. 'WHO Director-General's Opening Remarks at the Media Briefing on COVID-19 - 11 March 2020', *World Health Organization*, March 11, 2020, <https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020> (last accessed on 12.08.2020).

gical situation in country was quite complicated. Iran and Russia are examples of such behaviour, but in spite of this, they failed to make the information they disseminated more trustworthy.

Given the fact that the virus spreads due to contacts between people, it was necessary to limit the contacts. Most countries resorted to this at some time.

Some activities have moved to an online mode due to restrictions imposed on direct contacts between people. The education system is a vivid example: Lessons in schools and lectures and seminars in universities are now being held online.

It is simply impossible to apply this more or less successful example to all spheres of human activities. The restriction of direct contacts between people has led to the closure of catering facilities, hotels and other components of the tourist infrastructure; air and rail transportation of passengers, urban transport and trips of passengers by interurban transport have come to a halt. In general, the functioning of all facilities, where contacts between people were inevitable, was halted. Only food stores and pharmacies were allowed to function as an exception given their vital importance. However, special rules were put in place in these facilities to more or less restrict direct contract between people.

All these measures led to the stoppage of many sectors of the economy, leaving a significant part of the population without jobs and, correspondingly, revenues. Ultimately, a genuine economic crisis took shape and this happened not in a couple of countries, but at least in 200 countries of the world, which led to a full-scale global economic crisis.

It should definitely be born in mind that the essence of this economic crisis differs from all crises that have ever taken shape within the economy proper, where economists had appropriate knowledge of what was the cause of specific crises and what measures were to be taken against them.

However, the causes of this global economic crisis do not lie in the economy, so there are simply no economic mechanisms for overcoming it. The only advice economists can give governments is what measures are to be taken to provide social support to people remaining without jobs and how to save temporarily frozen businesses.

To overcome this crisis, it is first and foremost health professionals, microbiologists and pharmacologists who should develop therapeutic agents and a vaccine against COVID-19. Until this is achieved, the economic crisis may subside, but will not end. Correspondingly, the main feature of this global economic crisis is that the economy has become a hostage to medicine.²

Economic history knows other crises with their causes arising beyond the economy. The economic crisis following World War II and that caused by the collapse of Communist

2. Papava, V. 'Coronomic Crisis: When the Economy Is a Hostage to Medicine', *Eurasia Review*, 2020, March 29, <https://www.eurasiareview.com/29032020-coronomic-crisis-when-the-economy-is-a-hostage-to-medicine-oped/> (last accessed on 12.08.2020).

regimes are among the most obvious examples. It is not difficult to realise that both aforementioned economic crises are fundamentally different from today's. In particular, World War II left cities and infrastructure destroyed, needing to be restored, but this economic crisis has seen no such destruction. The same is fundamentally true for the economic crisis caused by the collapse of Communist regimes. In particular, the collapse was followed by the transition from one economic system (command economy) to another (market economy). No systemic change has taken place during this crisis and problems arose due to a temporary stoppage of the economy.

This is what makes this economic crisis unique.³ Correspondingly, it is not surprising at all that a new term was coined to denote the economic situation caused by the COVID-19 pandemic. In particular, Ajith de Alwis from Sri Lanka proposed the term 'coronomics'⁴, which merges two terms - 'corona' and 'economics'. Using this term, we can call the current global economic crisis a 'coronomic crisis'.

The importance of coronomics is stepped up by the fact that similar global threats are not at all ruled out in the future. Therefore, humankind is now facing a new challenge of learning how to live and pursue economic activities in such conditions.⁵

The coronomic crisis has given rise to numerous questions regarding globalisation. In particular, it is becoming increasingly topical to clarify whether this crisis can be the beginning of the end to globalisation. Some think it may be the right time to start de-globalisation and promote isolationism, as it may be necessary to renounce free trade between countries.

It is not at all difficult to answer these questions given the fact that the pandemic is a global phenomenon and the coronomic crisis has encompassed the whole world. It follows that the pandemic can be overcome only through joint efforts. Correspondingly, the countries that oppose globalisation will suffer even more damage.⁶

The coronomic crisis has led to the destruction of value chains and supply chains that had taken shape over years. In most cases, these chains were linked to the Chinese economy. Since the potential threat of the emergence of a virus similar to COVID-19 in

3. Ajili, W. 'Pourquoi la crise Covid-19 est-elle aussi inédite?', *L'Economiste*, 2020, 1 mai, <https://www.leconomistemaghrebin.com/2020/05/01/pourquoi-crise-covid-19-est-elle-aussi-inedite/> (last accessed on 12.08.2020).
4. de Alwis, A. 'Coronomics - Plan Your Eggs and the Basket!', *Daily FT*, 2020, February 6, <http://www.ft.lk/columns/Coronomics-%E2%80%93-Plan-your-eggs-and-the-basket-/4-695109> (last accessed on 12.08.2020).
5. Gigerenzer, G. 'Why What Does Not Kill Us Makes Us Panic.', *Project Syndicate*, 2020, March 12, <https://www.project-syndicate.org/commentary/greater-risk-literacy-can-reduce-coronavirus-fear-by-gerd-gigerenzer-2020-03> (last accessed on 12.08.2020).
6. Frankel, J. 'Will the Coronavirus Trigger a Global Recession?', *Project Syndicate*, 2020, February 24, <https://www.project-syndicate.org/commentary/coronavirus-global-recession-prospects-by-jeffrey-frankel-2020-02> (last accessed on 12.08.2020).



კოტე ზალდასტანიშვილი, მიხაელ ლანდაუ, მიხაელ ლინჰარტი, მარტინ ლედოლტერი - ავსტრიის განვითარების ფონდის 10 წლის იუბილე, ვენა, 2015, ©ფრანკ ჰელმრიხი. **Kote Zaldastanishvili, Michael Landau, Michael Linhart, Martin Ledolter - 10 years anniversary of Austrian Development Agency, 2015, ©Frank Helmrich.**

the future is again linked to China, the situation has led to the need in diversifying the aforementioned chains to reduce potential risks.⁷

In the process of the withdrawal from China of plants belonging to large companies and the search for new locations for them, preference will presumably be given to those countries that have signed free trade agreements⁸ with both China and the countries which the plants make products for.

Taking this situation into account, Georgia has a real chance of hosting some of the plants whose products are to be consumed mostly in Europe and are to be withdrawn

7. Dervis K., and S. Strauss. 'What COVID-19 Means for International Cooperation', *Project Syndicate*, 2020, March 6, <https://www.project-syndicate.org/commentary/global-cooperation-can-prevent-next-pandemic-by-kemal-dervis-and-sebasti-n-strauss-2020-03> (last accessed on 12.08.2020).
8. 'China FTA Network', *Ministry of Commerce, PRC*, 2020, http://fta.mofcom.gov.cn/english/fta_qianshu.shtml (last accessed August 12, 2020).

from China, as Georgia has signed a free trade agreement with the EU⁹, European Free Trade Association (EFTA)¹⁰, and China.¹¹

Discussing these issues, it should also be taken into account that China and the EU have not signed a free trade agreement and it is highly unlikely that one may be signed in the immediate future.

At the same time, relations between the United States and China have become so tense that it is not only impossible to think about free trade between them, but it is also obvious that a trade war¹² is under way between them, creating numerous difficulties to the contemporary world.¹³

Against the background of the unenviable relations between the United States and China, Georgia is in an advantageous position, as it has more or less realistic prospects for signing a free trade agreement also with the United States.¹⁴

A most important question arises in this context: Is Georgia indeed ready to host some of the enterprises withdrawn from China? To answer this question, it is necessary to realise what sector has been and continues to be the main driver of the Georgian economy.

It is a fact that it is tourism that has played this role.

It is known that tourism develops other sectors of the economy, as tourists visiting a country increase aggregate demand. As a result, enterprises in other sectors of the economy increase production to increase supply commensurate with the increased demand.

Unfortunately, this simple economic tenet does not usually work in Georgia's favour. The problem is that Georgia is a country that depends on imports and the amount of imported goods is three times as large as that of exported goods, 80% of the consumer and food baskets of the country consist of imported goods and only 20% fall on products made in Georgia. In other words, a consumer economy has effectively taken shape in the country.

9. 'Georgia, EU Sign Association Agreement', *Civil.ge*, 2014, June, 27, <https://old.civil.ge/eng/article.php?id=27417> (last accessed on 12.08.2020).
10. 'Georgia Makes New European Free Trade Deal', *Agenda.ge*, 2016, June 6, <https://agenda.ge/en/news/2016/1382> (last accessed on 12.08.2020).
11. 'Georgia-China Free Trade Agreement Signed', *Ministry of Economy and Sustainable Development of Georgia*, 2017, May 13, <http://www.economy.ge/?page=news&nw=180&s=saqartvelosa-da-chinets-shoris-tavisufalivachrobis-shesaxeb-xelshekruleba-gaformdeba&lang=en> (last accessed on 12.08.2020).
12. 'What Is the US-China Trade War?', *SCMP*, 2020, April 13, <https://www.scmp.com/economy/china-economy/article/3078745/what-us-china-trade-war-how-it-started-and-what-inside-phase> (last accessed on 12.08.2020).
13. He L. 'A US-China Trade War Is the Last Thing the World Economy Needs Now', *CNN Business*, 2020, May 19, <https://edition.cnn.com/2020/05/19/economy/us-china-trade-war-resume-coronavirus-intl-hnk/index.html> (last accessed on 12.08.2020).
14. Rapoza, K. 'Why Does Everyone Suddenly Want A Free Trade Deal With Georgia?', *Forbes*, 2020, March 5, <https://www.forbes.com/sites/kenrapoza/2020/03/05/why-does-everyone-suddenly-want-a-free-trade-deal-with-georgia/#4ec8165750e6> (last accessed on 12.08.2020).

Given this situation, an average 80 US dollars out of every 100 that foreign tourists spend in this country are spent on additional imports and only 20 US dollars remain in this country's economy. Taking into account the fact that Turkey is the top trade partner of Georgia, it follows that only 1/5 of tourism incomes work on the development of the Georgian economy, while 4/5 are oriented to the countries we import goods from, particularly to the Turkish economy. This is the reason for the Georgian economy being caught in a so-called tourism trap.¹⁵

The situation is deplorable, as Georgia has advantageous natural and climatic conditions for the development of agriculture and almost half of its able-bodied population live in rural areas. In the meantime, the share of agriculture in the country's economy is less than 1/10 and this is happening in conditions, where industry is effectively undeveloped in this country. The economic crisis has shown us how important it is for a country to have guaranteed food supplies. Given this, it is important to pay special attention to the development of the agricultural sector in Georgia to facilitate to the extent possible a rise in the food security level.

It should also be emphasised that agriculture cannot become the main sector of the development of this country's economy, because countries or regions mostly focusing on agriculture are economically underdeveloped in otherwise equal conditions. The main reason for such a situation is that the surplus value created in agriculture is quite low.

To make the Georgian economy attractive to those who want to move some of the plants from China, it is inevitable to not only simply start promoting the industrialisation of the country, but also to switch to a knowledge-based economic model. Of course, this needs time. Therefore, radical measures are to be taken as soon as possible. They should ensure the development of university and vocational education in this country and the essential improvement of the material and technical basis of science. It is necessary to attract talented youths to this sector and keep them there. For this purpose, it is necessary to duly appreciate the work done by scientists.

If all this is done, tourism will become much more advantageous for this country and it will also make it more identifiable at the international level.

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15. Papava, V. 'Georgia's Economy in a "Tourist Trap"', Rondeli Blog, 2018, July 25, online at <<https://www.gfsis.org/blog/view/854>> (last accessed on 12.08.2020).