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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Eradze, I. (2020). Corona Pandemic as an Amplifier of Socio-Economic Crises in Georgia. *Caucasus Analytical Digest*, 115, 3-7. <https://doi.org/10.3929/ethz-b-000415805>

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Corona Pandemic as an Amplifier of Socio-Economic Crises in Georgia

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DOI: [10.3929/ethz-b-000415805](https://doi.org/10.3929/ethz-b-000415805)

Abstract

The Coronavirus pandemic is changing our reality, from individuals' daily lives to the global order. A majority of countries worldwide are going through unexpected socio-economic crises while trying to tackle the impacts of the virus. Yet, the pandemic is not only creating new problems, but is also exacerbating existing systemic issues. This paper engages with the case of Georgia and analyses major challenges and the government's response to the crisis, as well as raising fundamental questions about rethinking the pre-Coronavirus socio-economic and political order. The article argues that, while the Georgian government might be preventing the worst through tackling the immediate causes of the crisis, it is not responding to mid- and long-term challenges of an unsustainable economic model. The Georgian state and its socio-economic order require rethinking now more than ever.

Introduction

The Coronavirus pandemic has changed the world, and yet more is to come. Millions have been "locked down" due to state of emergencies, often without income and fearing hunger. Health and economic well-being have been set on the opposite sides of the global dilemma. While countries of the Global North might achieve a balance between the both ends, the policy space for developing countries is more limited. Yet, it is not all about rich and poor: the type of state and socio-economic structure also matters.

How shall states solve economic and social challenges? How prepared is the health system? What to do with the businesses in crisis? How to ease the burden of the unemployed? Political leaders must provide answers to these questions. The time has come for governments to retreat from their policies of self-regulated free markets, privatised healthcare and marketized social relations. Yet, the crucial question is how the governments 'come back' and what kind of order will be established. While the dominant political discourse strives for restoring 'normality' worldwide, the crisis also offers a possibility of questioning and rethinking the existing order not only locally, but also on the global level. Development, solidarity and wealth distribution requires a new conceptualization.

The Coronavirus crisis has unravelled existing structural issues in Georgia and worsened the socio-economic burden of the society. Therefore, this paper aims to point out Georgia's major socio-economic challenges, provide a brief assessment of plausibility of government responses and raise fundamental questions about the sustainability of pre-Coronavirus 'normality'.¹

Government Responses to the Crisis: Preventing the Worst, Preserving the Best?

Coronavirus has been spreading in Georgia since the end of February, albeit on a smaller scale than in European countries. The Georgian government reacted rather early to the pandemic through suspending flights from 'risky' countries, setting mandatory quarantine requirements for those arriving from abroad, and closing schools, as well as nurseries (Civil Georgia, 2020a). On the 21st of March a state of emergency was declared, which continues today.

On the 13th of March the Georgian government introduced its anti-crisis economic plan, in which tourism was promised the biggest support, as the most vulnerable sector. The government announced such measures as: state assistance for small hotels in loan repayment for six months, increase of capital spending, doubling VAT refunds, postponing of income and property tax payments for tourism-related businesses until November, and loan restructuring for all companies, as well as for retail borrowers (Government of Georgia, 2020b). On the 1st of April, a 2 Billion Lari (app. 624 Million USD) package was announced to support the economy. Expenditures for health would increase by 350 Million Lari (app. 109 Million USD) and imports of nine commodities (flour, wheat, pasta, oil, sugar, milk powder, beans and buckwheat) would be subsidised. The government also began financially aiding the poorest part of the population through paying their electricity, gas, water and sanitation bills from March to May (International Monetary Fund, 2020a). Those who lost a job during the pandemic will receive a monthly support of 200 Lari (62 USD) for 6 months, while informally-employed

¹ A recent piece by Luka Nakhutsrishvili and Barbare Janelidze on state of emergency in Georgia inspired me to think about the sad irony of the government's determination to restore 'normality' (see (Janelidze and Nakhutsrishvili, 2020)).

labourers and the self-employed are eligible for a one-time payment of 300 Lari (94 USD) if they prove their previous employment. Yet, babysitters, street vendors and private teachers will most likely remain without any financial support due to the difficulty of proving the lost income. Socially vulnerable people will also receive additional monthly state support for 6 months, from 70 Lari (22 USD) (a single person) to 100 Lari (31 USD) (families with three children under the age of 16, people with severe disabilities and children with disabilities). Financial assistance was also promised to employers who did not lay off their employees. For monthly wages under 750 Lari (234 USD), employers will be freed from income tax and for salaries between 750 and 1500 Lari (468 USD) only the income above 750 Lari will be taxed. The government also introduced a pension indexation scheme to avoid inflationary effects on pensions—pensions will increase annually (from 2021 on) in accordance with the inflation rate and for people over 70, by an additional rate of 80% of the economic growth (Government of Georgia, 2020a).

While Georgia tries to prevent economic collapse, it is now more dependent on international financial assistance than ever. The IMF will provide 375 Million USD for the Ministry of Finance and National Bank of Georgia, and international organisations will contribute 1.5 Billion Dollars to the private sector and the financial system of Georgia (National Bank of Georgia, 2020d). The European Union also allocated 183 Million Euros for Georgia (Civil Georgia, 2020b). Yet most of the money is issued as a credit, which increases Georgia's foreign debt.

Georgia's anti-crisis plan has been the smallest possible response to the immediate impacts of the pandemic, and does not provide answers to mid- and long-term challenges of the economy. A discussion on rethinking the current development model has not started yet. As preventing the worst has become a motto for preserving the existing order, tiny steps of supporting the poorest of the country cannot be seen as a turn from neoliberalism, but rather as a strategy to avoid social unrest. This seems to be one of the motives behind the generosity of international organisations, as well (see (Shalal, 2020)).

Socio-economic Challenges of Georgia: Triple Dependency, Social Insecurity and the Pandemic

As the global economy enters a recession, global value chains melt down and exporting countries turn to more nationalistic policies, small and peripheral economies like Georgia's face multiple threats and constraints. One can describe the Georgian economy in terms of its triple dependency, as it strongly relies on foreign goods, cap-

ital and currency. Georgia has a high trade deficit (-42%) (Geostat, 2020a, p. 2). The Georgian financial system is based on foreign capital—14 out of 15 banks operate in foreign ownership, and foreign direct investments (FDI) (7% of GDP) and remittances (10% of GDP (National Bank of Georgia, 2020a, p. 6)) play a significant role in the functioning of the economy. FDI remains one of the main sources of financing the current account deficit (National Bank of Georgia, 2018, p. 31). High level of financial dollarization (52,6%) (National Bank of Georgia, 2020b, p. 16) makes the Georgian economy vulnerable to exchange rate fluctuations and the depreciation of the Lari increases debt burden for those with debts in foreign currencies, including the government, firms and individual households. Almost 90% of Georgia's external debt is denominated in foreign currency (National Bank of Georgia, 2020c).

As no Georgian government has managed to revive industry and agriculture or strengthen the national currency since independence, the economic structure built on the assumption of uninterrupted foreign capital inflow and tourism has proven to be unsustainable. Wholesale and retail trade represented the largest share of Georgian GDP in 2019 with 14,4%, followed by real estate activities (11,5%), manufacturing (10%) and construction (8,6%). Agriculture, forestry and fishing make up around 7% of the GDP (Geostat, 2020b, p. 1). Tourism revenues have been increasing over the last years, and it has been the main source of financing trade deficit of goods (National Bank of Georgia, 2018, p. 28), but this sector will suffer most from the Coronavirus pandemic. Foreign capital inflow will also decrease in terms of foreign direct investments and remittances. The Georgian Lari has depreciated by 14% in the 6 March – 6 April period, and the National Bank of Georgia has sold 100 Million US Dollars to support exchange rate stability (International Monetary Fund, 2020b). As the recent government anti-crisis plan reveals a primary focus on the revival of tourism (Civil Georgia, 2020d), along with supporting agriculture (Civil Georgia, 2020c), it becomes clear that no fundamental restructuring of the economy should be expected after the pandemic.

The inevitable economic collapse in Georgia will not remain hollow statistics, but rather influence the vast majority of the population. It's true that every economic crisis does so, but the results are more severe when the state does not guarantee basic social rights and more than 20% of the population lives in poverty (income below \$1.90/day), while almost 50% are on the verge of poverty (World Bank, 2018, p. 10). While the number of beneficiaries of targeted subsistence allowance has remained fairly stable over the past months, from March to April 2020 it increased from 922,000 to 933,000

beneficiaries (Social Service Agency, 2020). Unemployment², undernourishment and a high income inequality gap remain key challenges for the Georgian society (see (Gugushvili, 2016; Kakulia, Kapanadze and Qurkhuli, 2017; UNICEF, 2018)). The 'successfully' implemented wave of neoliberalization after the Rose Revolution (2003) has weakened social rights of Georgian citizens and constitutionalized the irreversibility of neoliberal reforms (for example the Liberty Act, see (Saakashvili and Bendukidze, 2014)). The Georgian labour code reform of 2006 deprived workers of formerly-held rights (Lazarus, 2013, p. 9; Gugushvili, 2016, p. 3) and the country still brags to have one of the most employer-friendly labour codes and no social taxes (Invest In Georgia, 2020). To this day there is no minimum wage or overtime payments, and health and safety in the workplace are not guaranteed in practice³.

Employers enjoy their privileges in times of crisis, as well. Many of them have sent their employees home due to the state of emergency, often without any payment or compensation. The government can only hope that private companies will show social responsibility, or at best remind them of their duties (Commersant, 2020). Yet, a large share of the Georgian labour force is self-employed (more than half of the employed labour) (UNICEF, 2018, p. 7). The self-employed, such as street vendors, babysitters, private teachers, apartment cleaners do not have formal employers to ask for compensation from, and they cannot turn to the government for help either.

Lessons from the Corona Pandemic: Rethinking Development and the Neoliberal State

The Corona pandemic has uncovered structural socio-economic issues in Georgia and makes the need of a fundamental change urgent. While the Georgian government has been trying to tackle the social impacts of the crisis, a new vision of economic development based on lessons learned from the Corona crisis is still missing. It is time to admit that the modernization⁴ agenda of

development is outdated. Free trade does not automatically bring welfare, and more FDI does not always create more jobs, as is often argued in political and expert circles in Georgia. Dependency on imports, foreign capital and foreign currency makes Georgia vulnerable to global changes. Even though limited resources is usually named as a barrier to fundamental reforms in Georgia, it must also be stated that it matters how these resources are used.

Therefore, Georgia has to rethink its socio-economic development, be it through supporting agriculture or investing in manufacturing, processing of valuable minerals or the IT-sector. Most importantly, there is a need for a mid- and long-term industrial development plan, which would not only be based on economic pillars, but include encouragement of relevant education programs to prepare the labour force for economic reforms as well. New policies must be socially and ecologically sustainable, and here an active involvement of different civil society and social groups is crucial. Furthermore, the financial sector needs to be directly involved in supporting this process to provide capital and encourage innovation, especially through financing small and medium size companies, which is not the case so far. The National Bank of Georgia should also facilitate economic development; setting up a development bank could encourage economic development initiatives.

Socio-economic changes depend on the type of the state and the art of governance. The neoliberal state is not oriented on societal welfare, but rather organises social and political life around markets. Neoliberalism changes state logic towards financial cost-benefit calculation calculus-based principles, in which audit and management practices acquire significant importance beyond democracy and politics (Davies, 2018, p. 280). In neoliberalism the state does not care for social rights and it operates along economic principles (Madra and Adaman, 2018, p. 115). Therefore, the neoliberal logic of protecting markets through the state (Davies, 2018, p. 273) must be replaced by a logic of protecting citizens in Georgia. The Corona pandemic has made clear that there is an urgent need to rethink the role of the state in Georgia.

About the Author

Ia Eradze has a PhD in Economic and Social Sciences (Dr. rer. pol) from the University of Kassel. She is currently a researcher in the international project "Legacies of Communism", initiated by the Leibniz Centre for Contemporary History in Potsdam.

See overleaf for References.

2 Measuring unemployment in Georgia is a contested issue. The data from the statistics department differ from independent research results. Mismatches in the data are related to different definitions of unemployment and status of self-employed people, especially in agriculture.

3 Articles 17 and 35 of the Labour Code of Georgia regulate the overtime work and health and safety.

4 See on modernization theory <https://oxfordre.com/internationalstudies/view/10.1093/acrefore/9780190846626.001.0001/acrefore-9780190846626-e-266>

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Armenia: Difficult Choice ahead as Socio-Economic Risks Loom

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DOI: [10.3929/ethz-b-000415805](https://doi.org/10.3929/ethz-b-000415805)

Abstract

This article examines how the government of Armenia dealt with the challenges resulting from the novel coronavirus pandemic. The article reviews the quarantine measures and related policy responses, the economic and social consequences of the current crisis, the situation with freedom of speech, and the significance of economic dependency on Russia.

Current State amid the COVID-19 Pandemic

As of May 11, with 3,538 confirmed cases of COVID-19, Armenia has the largest number of cases in the South Caucasus: it has 1,193 cases and 15.9 deaths per million people, compared with Azerbaijan's 259 and 3.2, and Georgia's 172 and 3 (Prepare EaP4Health—Civil Society's COVID-19 Response, 2020). Armenian Health Minister Arsen Torosyan warned that because of the 'multitude' of infection sources the authorities increasingly have trouble tracing people who might have contacted infected persons, and may soon be unable to hospitalize most infected people (Azatutyun.am, 2020).

Policy Responses

The initial lockdown was limited to closing all educational institutions for a week after the first case was confirmed on February 29. On March 16, when the number of active cases reached 45, the government declared a one-month state of emergency, banning gatherings of over 20 people (including religious ceremonies). On March 19, the Permanent Representation of Armenia to the Council of Europe (CoE) notified the CoE Secretary General about the measures, which might include temporary derogations from the obligations under the Convention for the Protection of Human Rights and

Fundamental Freedoms (Council of Europe, 2020). The National Assembly also adopted amendments to the administrative and criminal codes, so violations of quarantine orders may result in fines or even imprisonment for up to five years in case of neglect resulting in the death of another person.

From March 25, only medical institutions, infrastructure facilities, banks, pharmacies, supermarkets and smaller shops selling food, and food delivery services were allowed to work, while citizens were required to carry IDs and written statements justifying the need to visit one of these enterprises. Furthermore, since April 1 public transportation, including the underground in Yerevan, was suspended. However, when the government extended the state of emergency for another month, till May 14, it decided to allow farming, fishing, processing of tobacco products, production of cement and other construction materials, and open-air construction work from April 13, and to open shops selling household appliances and mostly export-oriented textile factories from April 20. Furthermore, by a decree of Deputy Prime Minister Tigran Avinyan, who is in charge of the state of emergency command, printing companies, repair shops, real estate agencies and some other businesses were allowed to resume working from April 23 (Government of Armenia, 2020). On April 28, Prime