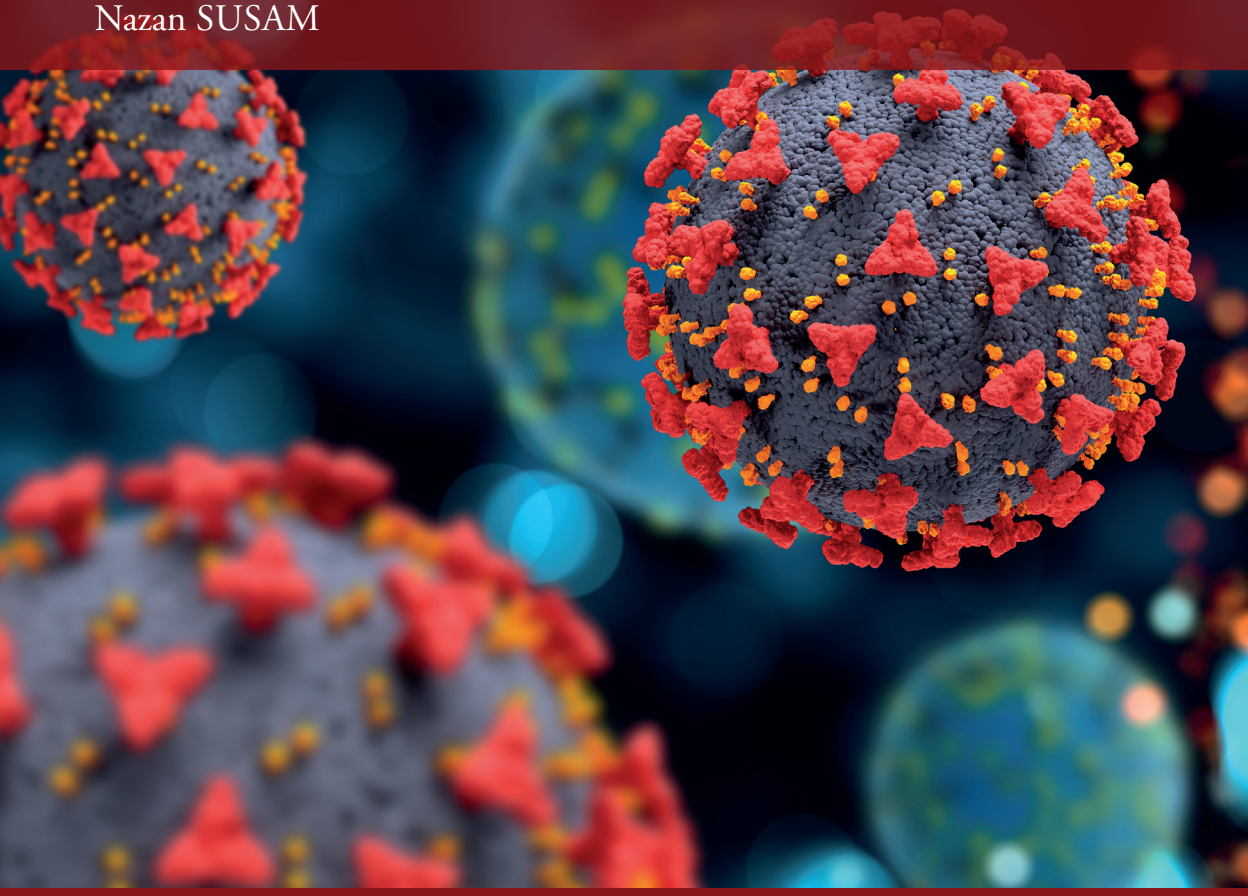
THE COVID-19 PANDEMIC
GLOBAL RISKS AND UNCERTAINTIES

Editor
Nazan SUSAM



İSTANBUL UNIVERSITY PRESS

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Nazan Susam

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PREFACE

The World Health Organization's declaration of the COVID-19 disease as a pandemic as of 11 March 2020 has been considered the beginning of the fight against a new crisis for all countries. The COVID-19 pandemic is a health crisis. With the beginning of the process, protecting human health and efforts for avoiding possible excess capacity in the health system has been the priority of all countries. In this context, the first measures taken to reduce the damage caused by the virus are aimed at enhancing the health system.

In order to prevent the collapse of the health system and slow down the spread of the disease, initial restrictions were put in force regarding social mobility, and in the second stage, financial measures were started to reduce the economic contraction that would create the crisis. In this process, while countries are closing borders to the world along with imposing social restrictions, these social restrictions in many countries were gradually being relaxed starting from June 2020, as financial measures have continued to be increased.

At the stage we have come to, the most important word that combines the different dimensions of the COVID-19 pandemic, which has strongly affected all societies, is uncertainty, and the risks that countries are facing. Although the concept of "uncertainty" has a meaning that covers risk, "risk" is more often encountered as one of the main determinants of human activity. As long as there is uncertainty about the size of the pandemic and how long it will last, risks to activities in the economy and social life will also increase.

Uncertainties remain, both in terms of health and in terms of other effects due to the pandemic. The state of uncertainty prevails, in terms of human health and other effects of the pandemic. The uncertainties related to economic variables and economic recession risks have increased especially due to the social limitations that aim to prevent the spread of the virus.

This process is a long lasting one and each stage may be the subject of different studies. The continuation of the process requires short-term, periodic elaborations. This study, which mainly analyzes the first effects of the pandemic, is important in terms of being able to follow the social and economic developments in the process.

A total of ten chapters in the book were prepared to draw attention to the risks and uncertainties experienced in the pandemic process from an economic, financial, social and political point of view.

The first part analyses the risks and uncertainties in the field of Economics;

- Nurtaç YILDIRIM, "**Challenges in Global Value Chains After COVID-19 Pandemic: A Review"** In this study, the advantages created by international production fragmentation, the increasing vulnerability due to this structure, the transformation created by global value chains (GVCs) in the international production and trade structure will be discussed. The impact of crisis processes on this volatile structure, the mechanisms of GVCs to spread the effects of the crisis to the international production and trade structure, and the effects of the COVID-19 pandemic on GVC activities will also be discussed, and the future of GVCs will be evaluated under the conditions created by the COVID-19 pandemic.
- Hülya DENİZ KARAKOYUN, "**The Effects of the COVID-19 Pandemic on the Exchange Rates of the Fragile Seven Countries"** In this study, there is an analysis of how the COVID-19 affected portfolio investment and exchange rate movements of seven emerging economies with similar macroeconomic indicators, which underlined by IMF in the World Economic Outlook Report (April'20). The relative importance of internal (pull) and external (push) factors of capital outflows

during COVID -19 will be compared with each other for the period from early January'20 to the end of August'20. According to the results of the comparative methods, while the uncertainty, economic growth, broad money supply growth, the short term external debt, and international reserves to external debt stock are meaningful factors, the monetary policy of advanced countries, global liquidity, and Credit Default Swaps are not.

- Elçin ŞİŞMANOĞLU, **"The Risk and Uncertainty Affect of COVID-19 Pandemic on Business"** The COVID-19 pandemic is a shock for the global economy that has influenced the whole world. This has not only outcomes for the economy; the whole community has been impacted which has caused significant changes in how businesses act and consumers behave. The COVID-19 pandemic has affected various sectors of society in different ways. Many companies have implemented their business continuity and crisis management action plans in the face of unexpected situations. Throughout the process, companies have had to take radical measures in order to continue their services and not to risk their operations. It is important to look forward and plan ahead for businesses. Businesses need to develop new strategies, new practices, different methods and tools to succeed in this process.
- Merve AYDOĞAN ÇİFÇİ & Sevinç GÖKTEPE, **"Uncertainty in Tourism Caused by Covid-19: Reconstructing the Industry with Opportunities"** Globalization and tourism have a bilateral and strong relationship. As the COVID-19 outbreak has led to uncertainty and deglobalization, tourism has been one of the industries hit hardest. Beside recovery strategies, recent research studies have also paid attention to regeneration of tourism with sustainable approaches. This is seen a very significant opportunity to make global tourism environmentally and sociologically responsible. Turkey is one of the countries having a great scale of tourism opportunities to help boost other sectors and the economy. This study focuses on highlighting the relationship among tourism, deglobalization and COVID-19 Pandemic. The effects of the COVID-19 on the Turkish tourism industry and forecast for the future are also examined. By doing so, arguments about the opportunities for reconstructing the tourism industry has been discussed.

The second part analyses the risks and uncertainties in the Fiscal Policy:

- Nazan SUSAM & Ferda YERDELEN TATOĞLU, **"The Effects of the COVID - 19 Fiscal Measures on Economic Variables: An Analysis Across Countries and Country Groups"** The economic and financial effects of the crisis will depend on, first the current problems and structural characteristics of a country at the time it faced the crisis, and second the responses, the forms and speed of interventions by policy makers. Measures taken and policy decisions made by nation states will lead to different outcomes for different countries and country groups. This study analyses these economic measures in three categories: fiscal emergency measures, deferrals, and liquidity provision and credit guarantees. The analysis starts with a monthly evaluation throughout the pandemic according to country groups, using EU, G7, G20 and OECD data. Data on individual countries were also analyzed where national data was available and correlations between these three types of fiscal measures and certain economic variables were evaluated. The study found significant and positive correlations between emergency measure packages and changes in exports, liquidity provision and credits, and interest rates.

- Binhan Elif YILMAZ, **"Public Debt in COVID-19 Pandemic Crisis in Europe and the Toxic Legacy of the European Debt Crisis"** The global crisis and COVID-19 pandemic crisis have caused financial, economic and social imbalances in many countries. The European Union member states stand out both through the channels affected by these crises and through their own unique solutions within the Union. However, most of the Union's member states are moving from the global crisis to the present to a highly indebted future. PIIGS countries are the most important actors in the transformation of the global crisis into a debt crisis, especially in Europe. These economies have been heavily affected by the COVID-19 pandemic crisis, which has spread to all the countries of the world since the early days of 2020, and have been caught up in the pandemic crisis by the high public debt of the global crisis and its toxic legacy. This study examines the impact of the toxic legacy of Europe's debt crisis on the financing problem of the COVID-19 pandemic. In this context, the toxic debt problem is evaluated together with the risks caused by the pandemic crisis and the measures taken.
- Aysel ARIKBOĞA, "**The Role of Fiscal Space on Responses to the COVID-19 Crisis"** The paper focuses on the potential role of fiscal space on responses to the COVID-19 pandemic. Accordingly, countries with ample fiscal space have the opportunity to respond swiftly and the amount of the fiscal packages are relatively higher in these countries compared to the ones with limited fiscal space. In this respect, developing economies with limited fiscal space have so far lagged behind the advanced economies in fiscal policy measures. The paper also argues that the process of expanding fiscal space can also lead to decreasing inequality via increasing qualified public health and education services and the restructuring of a more progressive tax system.

The third part analyses risks and uncertainties in the social and political sphere:

- Selcan PEKSAN & Meltem GÜNGÖR DELEN, **"COVID-19 Induced Uncertainty and Labour Markets: Risks and Insights during the Early Stages of the Pandemic in Turkey"** The global spread of COVID-19, presenting both economic and social shocks that cause severe impacts on labour markets, has led to a crisis worldwide. These impacts differ among countries depending on the structural features of their labour markets and the scope of the measures they have taken. The negative consequences of the current crisis are particularly harsh for disadvantaged and vulnerable labour groups, such as informal workers, low-income occupations, and youth. Hence, the unequal character of the risks posed by the pandemic is mainly due to inequalities associated with the segmented structure of the labour markets. From this perspective, the structural characteristics of the Turkish labour market are likely to deepen the pandemic induced risks in the long run.
- Filiz BALOĞLU, **"Women's Connected Lives During the COVID-19 Pandemic: From Home to the Economy"** The purpose of this study is to reveal the intersections of domestic life and economy due to the new burdens that women "working from home" or "unemployed" in the COVID-19 process had to shoulder in the context of care work. Care work sustains life and involves intimate relationships. Therefore, the foundation of this study is the Zelizerian 'connected lives' approach, which explains the relationality between intimate relationships and the economy. This approach leans on a series of negotiations inside or outside the home. Pre-pandemic established negotiations in the context of care work that allow women to participate in labor markets have changed. Accordingly, the study tries to exhibit the way these new negotiations are shaping the relationship between domestic life and the economy, and to present foresight on whether new negotiations will continue or not.

- Gizem BİLGİN AYTAÇ, **"Changing Security Threats and Impacts of COVID-19 Pandemic in Global Politics"** This study aims to highlight the COVID-19 pandemic effect on global politics in a critical view. Since December 2019, the world has seen the most significant threat that cannot be only studied with classical security approaches, based on a state-centric view but also needs a critical approach. The COVID-19 pandemic is a unique global threat that has affected all the actors in global politics, especially regarding their security. This study aims to look at how the COVID 19 pandemic affected individuals, genders, and societies in the risk groups of global politics, and how the state leaders reacted to them in this period of uncertainty. In six months, "war against a threat" was redefined by comprising health, food, human and gendered securities, also considering the massive environmental change in the globe. This global threat will affect the future of the world, with political choices, consuming tendencies, and coping with violence.

I would like to express my sincere gratitude to all the colleagues who have contributed to this editorial book prepared by thirteen invaluable female members of the Istanbul University Faculty of Economics. Despite the difficulties we experienced during the lockdowns, when we stayed in our homes, this work that connected us to each other once again reminded us of how important resilience, cooperation and solidarity are in academic life. I would also like to express our extended gratitude to Istanbul University, the Faculty of Economics and our professors who have supported us during the preparation and implementation of this study. This study was funded by Scientific Research Projects Coordination Unit of Istanbul University. Project number: SBG-2020-36831

Editor
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PART 1

ECONOMIC RISKS AND UNCERTAINTIES

CHAPTER 1.1.

CHALLENGES IN GLOBAL VALUE CHAINS AFTER COVID-19 PANDEMIC: A REVIEW

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Abstract

In the past decades, dynamics of the global economy has significantly shifted in parallel to the remarkable advances in the technological, political, and institutional environments. One of the most important global changes originated from a shift in global production settings. Production stages are now divided at the international level and each stage is carried out in different countries where they are connected to each other on global value chains (GVCs). However, these settings were hit by the COVID-19 pandemic which led governments and companies to take extraordinary measures to overcome this health crisis. As a result of the direct impacts of the pandemic and indirect effects of some of these measures, global value chains were harshly hit, increasing overall economic disruptions. In this study, the transformation created by GVCs in the international production and trade structure will be discussed along with the advantages of GVCs, and the increasing vulnerability posed by this structure. The impact of crisis processes on this volatile structure, the mechanisms of GVCs to spread the effects of the crisis to the international production and trade structure, and the effects of the COVID-19 pandemic on GVC activities will also be evaluated. It can be pointed out that increasing dependence of countries on a single input supplier is one of the leading factors contributing to the spread of any disruption in the chain to the other parts. Countries should differentiate their supplier base to diversify the risks, along with strengthening their technological infrastructures, governance issues, and bureaucratic structures to prevent risks and capture advantages of participating in GVCs.

Key Terms: Global value chains, fragmentation, COVID-19, pandemics.

1. Introduction

The impact of globalization along with market competition has been reflected in the expansion of international trade, foreign direct investments (FDI), the flow of financial resources, and the exchange of human and technological resources. The significant implications of these developments were realized by firms, which turned out to have the expertise to create cross border production networks. The appropriate environment for these networks was triggered by the search in developed countries for low production costs and attractive investment opportunities and for benefiting from the industrial capabilities of local producers. The enlargement of cross-border production networks was triggered by removal of trade barriers, the free movement of development of information and communication technology, and advances in logistics and supportive policies by countries in the 1990s and 2000s. World trade has been marked by the rise of global value chains (GVCs) in which countries can specialize in various aspects of the production process. Global economic activities such as value-added production, investment, and trade are now conducted in GVCs, which can be described as a bilateral interaction between leading firms from developed countries and less developed local producers (Gibbon et. al., 2008). The environment generated by GVCs and the interaction of developed and emerging countries in these chains greatly contributed to the expansion of exports, the manufacturing industry, and technology diffusion in emerging countries while the firms in developed countries benefited from low cost production and profitable opportunities.

This kind of production process is generally conducted by multinational enterprises (MNEs), which have now started to organize their production on a global scale, by sending some stages of their production to foreign and distant countries in order to increase efficiency and reduce costs. The globalization of economic activities has also gone hand in hand with foreign direct investments (FDI), which accounts for the rapid economic growth in less developed countries with limited technological resources (Lall, 2000). Several large trading companies lead GVC trade, supported by FDI, which is the most important indicator of the international fragmentation of production and the realization of production processes over GVCs. The strategies of international companies to spread the production stages to other regions have increased FDI activities, and intermediate goods produced in GVCs have crossed international borders many times and increased vertical trade flow. The firms engaged in export and FDI are also endowed with greater productivity gains when they are integrated into the global economy via GVCs. Likewise, imports also provide opportunities to developing countries for adopting and innovating new technologies, ideas, and knowhow.

The countries have increasingly realized that participating in GVCs may bring opportunities to their level of employment, technological development, and overall economic prospects. This process also gives developing countries the opportunity to produce in sectors such as automotive, textile, communication, and machinery where they have not before so they have implemented attractive and less restrictive policy frameworks to capture the possible benefits. The fragmented production structure has become a core element of international competitiveness enabling countries to specialize in various stages of final production on a value chain. The raw materials, manufactured goods, and various kinds of inputs from developing countries began to flow to developed countries. The traditional production structure in which all production stages were carried out in a single process has been replaced by a fragmented production structure where each production stage is carried out by a different process in different locations. Thus, the value it produces at one stage along the chain is added to the other and the price of the product at each stage is determined accordingly.

On the other hand, many developing countries increasingly depend on imported goods for local production, that is, an increase in import dependency in their exports. For this reason, the value-added shares of these countries in the global production chains have increased in a limited way. Similarly, every participant in the GVCs has become dependent on intermediate goods suppliers. A problem that occurred in the upstream or downstream part of the chain can create disruption in the entire chain. This kind of disruption created a ripple effect, which made GVCs vulnerable that then became a risk factor for the entire manufacturing industry. The global financial crisis of 2008-2009 not only created such a disruption on GVC activities, but it also exacerbated the negative impact of the crisis on the overall economy. Indeed, the devastating effect of the crisis on world trade, which was even worse than the Great Depression, is closely related to the rapid increase in the share of GVCs in global economic activities since the early 2000s. Similarly, the COVID-19 pandemic emerged as having a disruptive impact on GVCs and this effect acted as a factor that transformed the pandemic into an overall economic crisis.

In this study, the advantages created by an international production fragmentation, increasing vulnerability due to this structure, the transformation created by GVCs in the international production and trade structure will be discussed. The impact of a crisis on this volatile structure, the mechanisms of GVCs to spread the effects of a crisis to the international production and trade structure, and the effects of the COVID-19 pandemic on GVC activities will also be discussed, and the future of GVCs will be evaluated.

2. The Rise of GVCs

Production and trade networks are not a new phenomenon in the world economy. Since the beginning of trade, companies using parts and components from all over the world have been in search of a new market both to obtain intermediate goods and to sell products. What has recently changed is the size, depth, speed, and extent of such global interactions. Countries in the global economy have struggled to occupy distinct export roles for ages and thus industrial upgrading and international sourcing have always been evaluated as a key strategy. Under these conditions the notion of an increasingly integrated global economy can be effectively understood through the conception of GVCs.

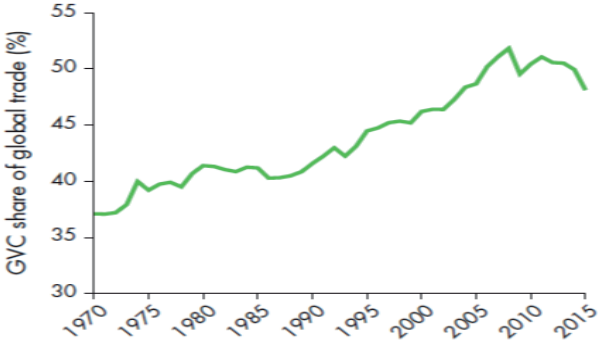


Figure 1: GVC Share of Global Trade
Source: World Development Report, 2020

Figure 1 illustrates that the share of GVCs in global trade increased rapidly beginning from the 1990s with a sharp increase in the 2000s until the outbreak of a Global Financial Crisis in 2008. This fact also reflects that from the 1990s to 2008, globalization of the production process has been increasing. GVCs account for about 70% of world trade today (OECD, 2020a).

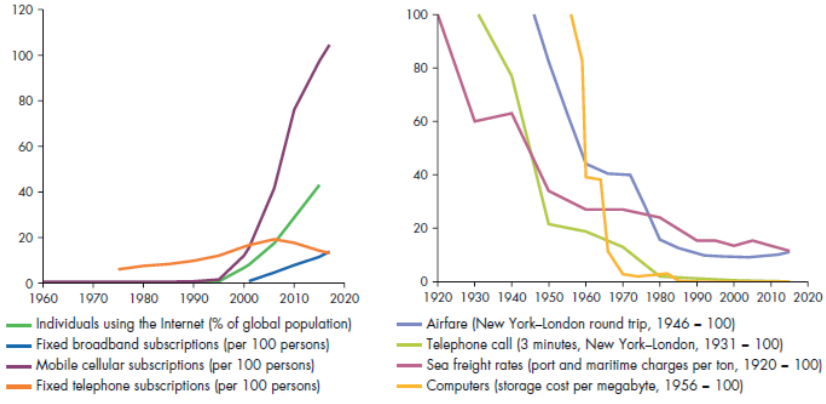


Figure 2: The factors affecting the rise of GVCs
Source: World Development Report, 2020

Even though the internationalization of the production process is not new, determining the exact date and place of the emergence of GVCs does not seem possible. However, the emergence of the fragmented production process coincides with certain developments in ICT, transportation, and communication. The left panel of the Figure 2 shows the use of ICT between 1960-2017. In the 1990s and 2000s when GVCs had an important place in international production concurs with the acceleration of the global usage of ICT resulting in cheaper and more confidential ways of conducting a firm's activities via outsourcing. These years were also when the costs of transport and communication fell as shown in the right panel of the Figure 2. These developments enabled MNEs to outsource some of their activities to different countries in a safer and cheaper way.

The rise of GVCs can be traced by examining the changes in other features. From the 1950s to the early 2000s, world commodity trade increased 20 times, while world goods production increased only about 6 times. However, manufacturing and international sourcing were concentrated in a small number of industrial countries. Beginning in the late 1970's Asian countries began to participate in GVCs and by the late 1990s Asian economies transcended the leading industrial economies. This can be detected by examining the economies' input-output matrices used for recognizing which industry uses which goods as an input. Summing up these values constitutes a measure for trade in GVCs (Baldwin, 2013).

In this regard, the international trade data presents some insights about the rise of GVCs. Since GVCs are defined by the fragmentation of production, and the value of trade in intermediate goods provides an insight about the expansion of GVCs.

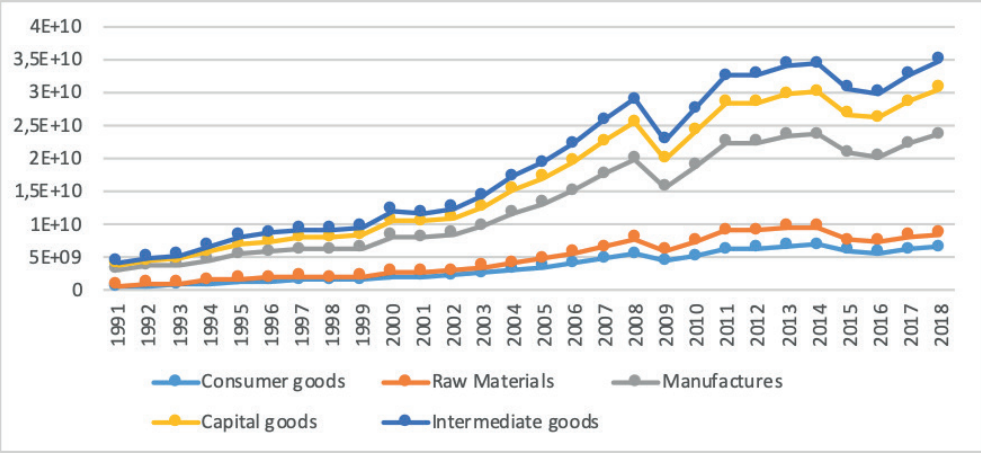


Figure 3: Trends in International Export
Source: World Integrated Trade Solution, Trade stats

Figure 3 illustrates the value of international trade in intermediate goods. When compared with the trade values of other products, the highest increase in value was observed in trade in intermediate goods. Despite the fact that trade in intermediate goods dropped significantly in the 2008-09 global financial crisis, developing countries continued to have a large share in world manufacturing and trade in intermediate goods. This supports the conclusion that the final product production process was fragmented via GVCs particularly beginning from the early 2000s, parts and components cross the borders of many countries and the final product was produced with the participation of many countries instead of being completed in one country.

3. Participation in GVCs and The Path for Developing Countries

One of the most important factors in the emergence and development of GVCs is that developing countries in the 1980s abandoned the import substitution growth models and turned to export-oriented growth strategies. Since then, their success in exports has been remarkable. As a result of these policy changes, developing countries have become dependent on exports to grow. This process also went along with the expansion of GVCs in which almost every country participates. Particularly, East and Southeast Asian countries quickly joined GVCs in parallel with their export led growth strategies. In this way, they were able to shift their exports to products that created more value added and reached a better position in terms of technology, employment, and living standards. However, each country is included differently in this formation. While developed countries participate in GVCs by producing high-tech and innovative products, developing countries are included in GVCs by producing products with low innovative content that need to be further processed.

The trade pattern observed in GVCs is based on the traditional trade theories such as the Ricardian model and factor endowment theses of the Heckscher-Ohlin model. In this trade structure, countries with an abundant qualified labor force obtain a comparative advantage in high skill-intensive products and import products over those produced by low skill labor abundant country. Likewise, the country, which is abundant in terms of land and natural resources, specializes in primary products and exports them. As the specialization and trade structure in GVCs is similar to this model, the factors which determine the position of a country in global trade also determine the position of the country in GVCs. The production stage of the country in the GVCs depends on which resources it has in abundance. Where physical capital and high skill labor abundant countries or natural resources and low skill labor abundant countries will be located in the chain, upstream or downstream production stage, is determined in accordance with these relative factor endowments (Antras et al., 2012).

The fragmented world production structure and its realization in GVCs caused the international division of labor to become more effective. Being in a certain stage of GVCs allows a country to specialize in a specific value adding activity in accordance with its specific endowments, instead of completing the whole industrial process. GVCs are expected to generate more income as countries can benefit from the comparative advantages of other countries both on a sectoral basis and within different stages of the same sector. In terms of companies, GVCs cause the input costs to decrease and the companies to benefit from the economies of scale, resulting in more profits. Countries with a larger market tend to attract larger stages than countries with a small market. Their use of imported inputs in their exports is less, and therefore the GVC backward integration levels are low. On the other hand, these countries are geographically close to consumer demand for the final product and therefore their central location leads them to downstream specialization. Thus, their central location increases backward through GVC integrations (Antras and Gortari, 2020).

Although the fragmented production system has an inference that explains trade and parallels to the possible gains of traditional trade theories, it is difficult to put forward the same argument about income distribution. Contrary to Stolper Samuelson's income equality theorem, which is extracted from the factor endowments model, international fragmentation creates income inequality (Goldberg and Pavcnik, 2007). One of the most important reasons is that production that requires low-skilled labor in the developed country requires high-skilled labor in the developing country where it is offshored. Thus, the demand for high skilled labor increases in the developing country and the distorted income distribution in their favor deteriorates even more than before (Feenstra and Hanson, 1996, 1997).

In this structure, it turns out that the long-term implications of participation in GVCs are not as straightforward as short-term consequences. Economic development is increasingly dependent on industrial upgrading, which requires companies to move up in the chain by constantly engaging in activities that provide higher added value in GVCs. This type of upgrading in the chain requires increased productivity, efficiency and skills by adopting new technologies. While technology diffusion and spillover can be obtained from leading companies that produce the highest value added in the chain, institutional governance is also an important strategy to be adapted by developing countries.

As one of the core aspects of globalization is based upon the increased transfer of technology among countries, a country well positioned in GVC is expected to benefit from the technology diffusion reflecting in economic growth rates of that country. It is clear that in order for a country to transform the change provided by GVC into net income, it must continue with the structural change process so that the gains from participation in GVCs can be spread to the whole economy.

4. Crisis and GVCs

The recent global financial crisis in 2008-09 created an unprecedented collapse of trade in history, and in almost all OECD countries caused a severe and simultaneous drop in trade volumes, bringing world trade to almost a halt in the last quarter of 2008. A distinctive characteristic of this period, where the decline in trade was so unique, was the rise of GVCs in the last decades. In the fragmented production structure, when final demand is reduced, not only trade in final goods and services decline but also reduced trade in intermediate goods and services. That is, a decline in income is not only as much as the value of the final product, the value of the intermediate goods used to produce it should also be added to the decline in income. (Yi, 2009).

The change in trade was also more rapid than before due to specific transmission mechanisms. One channel through which the expansion of GVCs strengthens the adverse effects of an economic or financial shock in any country on the export volume is income elasticity of the country's exports. If the product that is heavily exported has a high income elasticity, a decrease in foreign income will cause a higher decrease in foreign demand. The products that are the subject of international fragmentation are mostly durable products with high income elasticity and high demand volatility that can quickly adapt to market preferences and therefore have a high share in the exports of countries in the chain (Engel and Wang, 2011). In this regard, trade is harshly affected by a development that negatively affects foreign demand.

As another channel, the factor known as the bullwhip effect comes into play, indicating that when demand for a final product decreases, firms in the upstream part of the GVCs reduce their stocks more than the decrease in demand for the final product (Freund, 2009). The bullwhip effect, which is interpreted as the increase of order volatility from the downstream to the upstream stages against a demand shock, is also associated with the disruption of the information structure between countries connected to the chain and therefore the formation of inventory mismatch (Dai et.al, 2016). The Bullwhip effect is also associated with some significant costs such as employment volatility, excess inventory, and inefficient utilization of resources. This is an issue that is specific to the fragmented structure of GVCs and is overly sensitive to systemic disruptions seen within the structure itself. Since intermediate goods traded within the GVCs cross the border many times, a systemic shock somewhere in the chain risks spreading to the entire chain (Yi, 2003).

As well as economic shocks, financial ones are transmitted to the whole chain as a participant in the chain experiences a financial problem such as a credit crunch. This was the case in the 2008-09 crisis, when the trade collapse emerged simultaneously across countries.

The reason this was credited to the GVCs which functioned as an effective transmission mechanism of both economic and financial crisis (Baldwin, 2009). As a result, in the global landscape where GVCs are so involved, the change in trade volume and value led by an economic crisis is much more than in the 1960s.

5. Effects of COVID-19 Pandemic on GVCs

Temporary disturbances of GVCs are known to arise for various reasons such as legal issues and natural disasters. Disruptions caused by a pandemic, on the other hand, have several different contributing factors. Specifically, the effects of a pandemic are not limited to a specific time or region. Different components of a GVC such as production, distribution centers, logistics, and marketing can be affected simultaneously or successively by a pandemic and cause the activities to stop (Ivanov& Das, 2020). These effects spread simultaneously in the chain and simultaneous disruptions are seen in the supply, demand, and logistics infrastructure. Moreover, the adverse effects arising from a pandemic are long-lasting and unpredictable (Ivanov, 2020).

The outbreak of the COVID-19 pandemic in the Chinese province of Hubei, a hub for GVCs particularly in the automotive and electronic industries, became an international problem with the most devastating effects both in terms of health and economic activities. The health problem spread widely to almost every part of the world and turned into a global epidemic that caused partial or total lockdowns for a number of global populations. While border restrictions, travel suspensions, and unavoidable lockdown measures have a negative impact on consumption expenditures, investment, and international trade in the short term, it seems that we cannot predict what damage it will cause in the long term without preventing the pandemic completely.

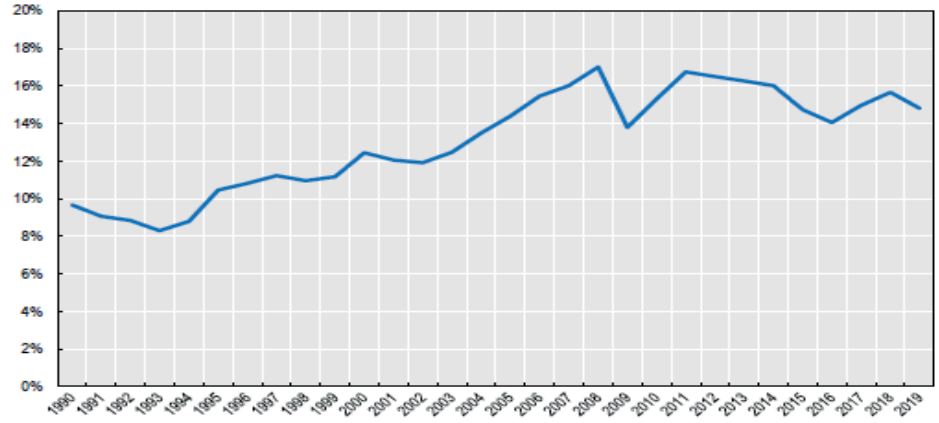


Figure 4 . Global import intensity of production, 2005-2016
Source: OECD, 2020b

Before the COVID-19 crisis, as observed in Figure 3, GVC activities began to decline with a decrease in imported input, which means a decrease in production fragmentation. Trade in intermediate goods, which recovered again after the disruption in the 2008-2009 crisis, entered a downward trend beginning in 2011 and this trend continued until COVID-19. As the rise of GVCs in the beginning of the 2000s was perceived as an indicator of globalization, the decline in the use of foreign input by companies is interpreted as a signal of deglobalization. Another source of this argument comes from an analysis on the geographic length of supply chains. It has been observed that since 2012 this length has been shortened, with GVCs becoming more domestic rather than more regional (Miroudot and Nordström, 2019). It should be noted that the economic and political uncertainties created by trade tensions between the US and other countries, rising trade costs, and protectionism have also had an impact on this phenomenon.

The extent of the sudden shock brought by COVID-19 to the international mobility of goods, services, and people has brought GVCs into the agenda just like the 2008-09 crisis. One-third of global production is conducted by MNEs which also undertake half of the world trade and these companies decide how products are produced and delivered to consumers. This production is mostly carried out in chains and domestic suppliers in other countries are required for the production to be conducted.

There are several reasons why GVC activities were interrupted by COVID-19. First of all, the fact that the pandemic caused working people to get sick and the transition to working practices in line with the social distance rules directly reduced production, which led to supply shock. Another effect arises when transport restrictions due to the pandemic cease business activities in the chain. A similar consequence occurs when one or more countries affected by the pandemic, stop production activity in chain companies that depend on the importing input from the affected country. As with the 2008-09 financial crisis, the demand shock that emerged with COVID-19 also disrupts the activity of GVCs, increasing the effect of the supply shock. The decrease in the demand for final goods also reduces the demand for intermediate goods produced in other countries. The demand problem arising in one country spreads to other countries through GVCs. As the crisis becomes global, this effect occurs simultaneously in many countries, as in the case of the 2008-09 crisis. COVID-19 led to a decrease in demand in almost all manufacturing sectors except healthcare and food sectors. This accounts for a significant loss of activity for GVCs.

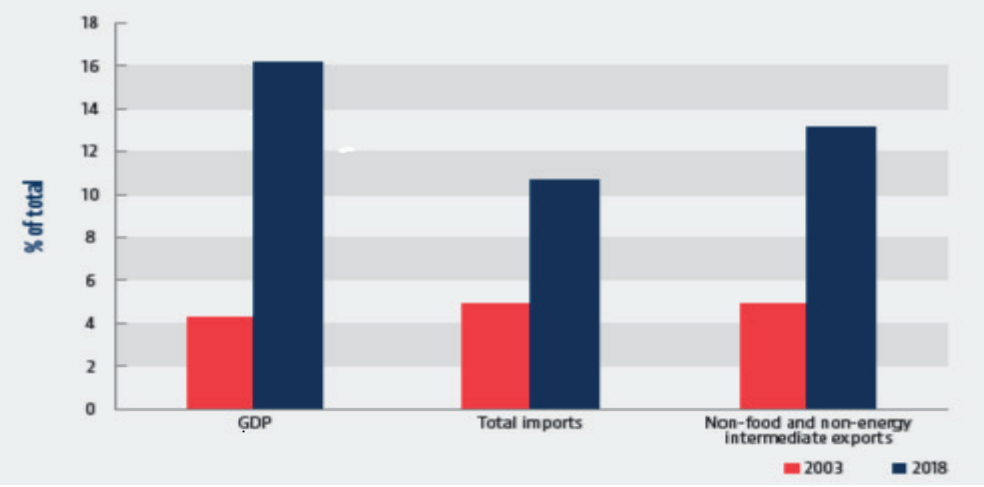


Figure 5: China's rising importance in global economy
Source: Baker & McKenzie, 2020

One of the most significant factors propagating the effects of COVID-19 to the other regions of the world is the rising significance of China in global manufacturing and trade. As one of the domestic suppliers, China, "world's factory", has become increasingly important in chains as a major intermediate goods supplier to the world market as seen in Figure 5 and Figure 6.

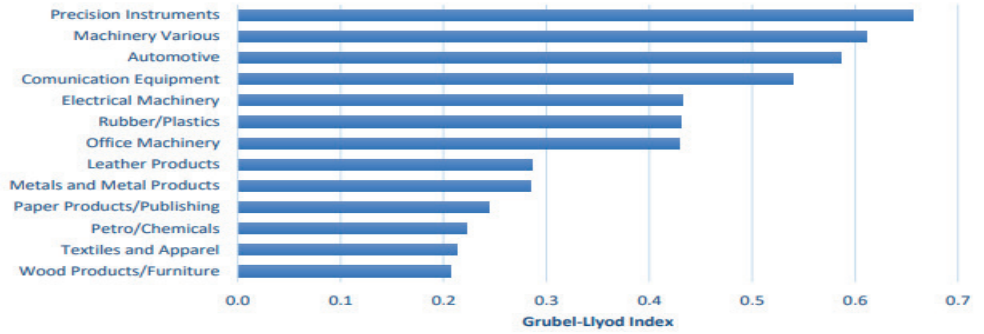


Figure 6: China Integration in Global Value Chains, by sector
Source: UNCTAD, 2020.

China's current integration into GVCs measured by the Grubel Llyod Index (GLI) is illustrated in Figure 6. China is mainly participating in GVCs through precision instruments, machinery, automotive, and communication sectors. Any problem that restricts China's production in these sectors will put manufacturers all over the world in a difficult position. The closure of factories in China in January once again demonstrated how dependent world manufacturing production is on inputs from China.

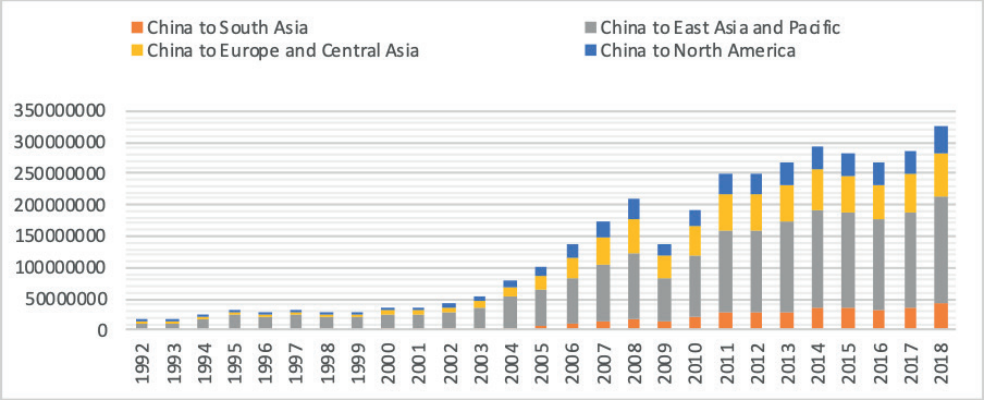


Figure 7: Chinese Exports of Intermediate Goods (US$ Thousand)
Source: World Integrated Trade Solution, Trade stats

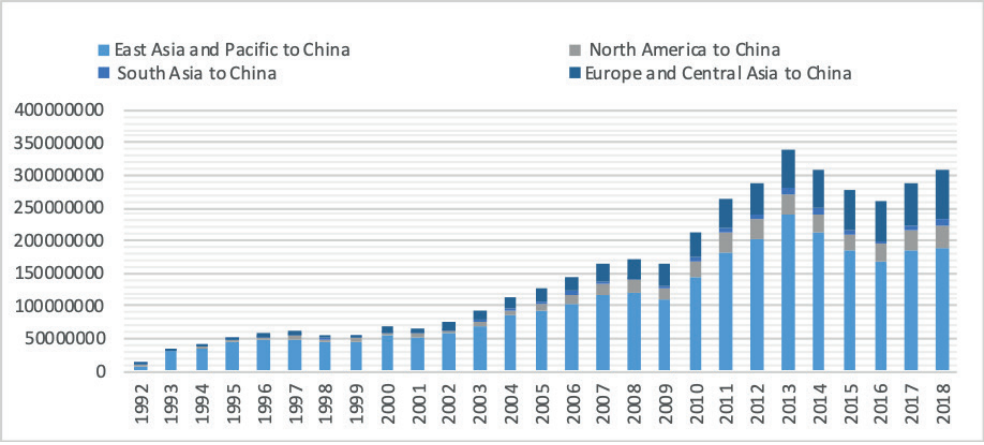


Figure 8: Intermediate Goods Exports to China (US$ Thousand)
Source: World Integrated Trade Solution, Trade stats

Figure 7 and Figure 8 also demonstrate the rising importance of China as a hub for global manufacturing and trade. The exports of intermediate goods to almost every region of the world increased greatly from 1992 to 2018. On the other hand, the East and South Asia's exports of intermediate goods to China increased as well as shown in Figure 8. This may present an insight about further fragmentation as other countries of the region participate in GVCs as suppliers of parts and components, exporting them to China for assembly operations.

In this regard, the shrinkage in the Chinese manufacturing industry has the power to create a supply shock in almost all countries' manufacturing industries, especially those with the strongest ties to China. The supply shocks experienced in China and developed

countries, which have a significant place in the GVCs, exporting a large part of the industrial products, may interrupt the industrial input trade and transfer the supply shock to other countries on the chain.

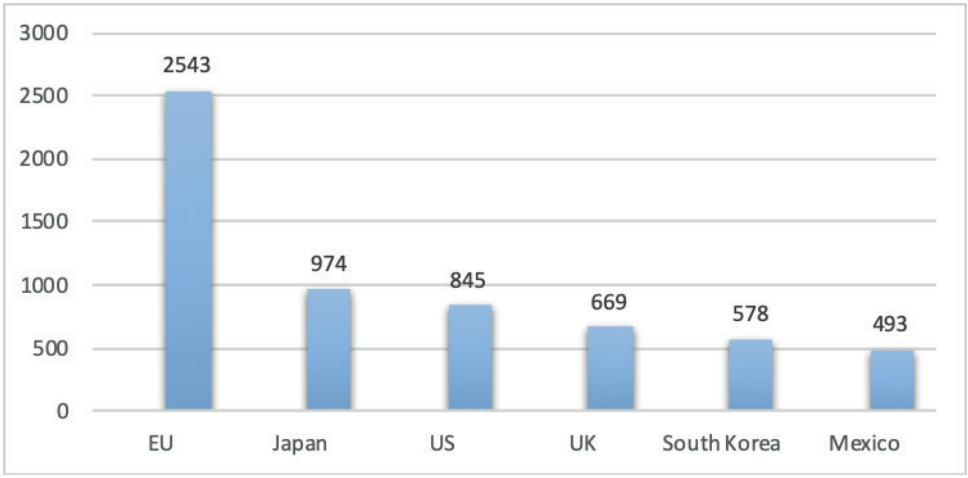


Figure 9: The effect of COVID-19 on Automotive Sector (US$ million from a 2% drop of China exports in intermediate goods)
Source: UNCTAD, 2020

Figure 9 shows the expected financial loss as of February 2020 in the automotive industry of the EU, Japan, the USA, England, South Korea and Mexico, due to a 2% contraction in the Chinese manufacturing industry. These countries are dependent on inputs produced in the Chinese manufacturing industry. Therefore, any breakdown in GVCs, especially by the Chinese, has significant effects on this sector. It is estimated that a similar situation in countries most susceptible to the production shrinkage in China will apply for many products whose production is made in GVCs. Accordingly, it is predicted that: the EU will be affected mostly by machinery, automotive and chemicals; the US by the machinery, automotive and precision instrument sectors; Japan by machinery and automotive; Korea by machinery and communication devices; and Taiwan by communication devices and office machinery sectors. These are all expected to shrink due to the breakdown of GVCs on the part of China.

As Figure 9 clearly shows, China's increasing importance in the global economy and the fact that countries are integrated with each other indicate that trade has an important share in spreading the effects of COVID-19. Other countries that are most affected by the pandemic are also important centers of global trade and GVCs and being the most important supplier of industrial intermediate goods to each other and to other countries is an important factor that will determine the impact of the crisis on trade.

The last three decades witnessed a significant increase in the economic activities of MNEs. Foreign direct investment inward stock which was 8.2% of the world's GDP in 1988 rose to 38% in 2018 (UNCTAD, 2019). To become a significant participant of international trade today requires developing countries to attract more and more FDI to their economies. As the activities of GVCs are conducted by MNEs through FDI, participation in GVCs also depends on FDI (Kacani, 2020). FDI not only affects a country's participation in the GVCs, but also determines the country's positioning within the GVC. In this regard, the policies to attract FDIs have a positive impact on both participation and positioning in GVCs.

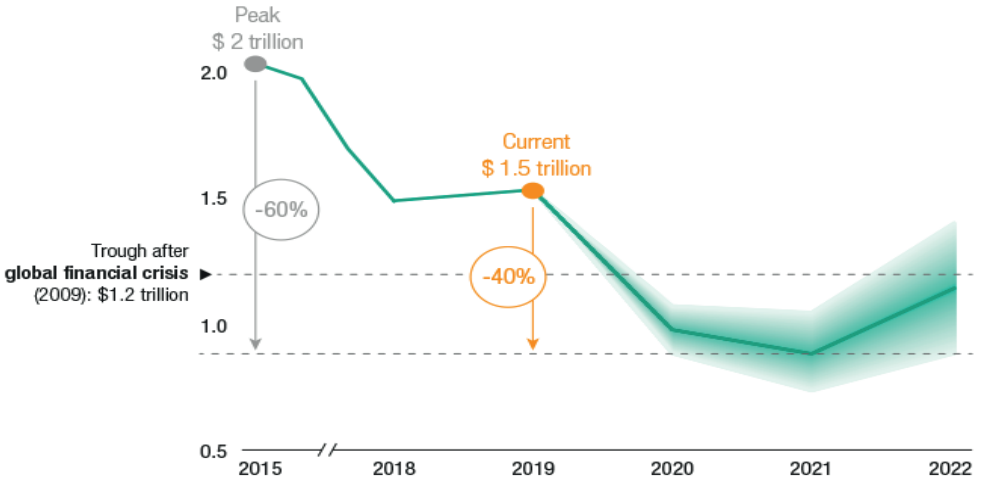


Figure 10: Global FDI infows, 2015–2019 and 2020–2022 forecast
Source: World Investment Report, 2020

The FDI through which GVCs are conducted and supported is expected to drop in all regions of the world up to 40% in 2020 from $1.5 trillion in 2019 as seen in Figure 10. The declining trend in FDI inflows is predicted to continue up to 2021.

Table 1: Projections of Decline in FDI Inflows (%)	
World	30 - 45
Developed economies	25 - 40
Europe	30 - 45
North America	20 - 35
Developing economies	30 - 45
Africa	25 - 40
Asia	30 - 45
Latin America and the Caribbean	40 - 55
Transition economies	**30 - 45**
Source: UNCTAD, 2020	

Table 1 also demonstrates that world FDI inflows are expected to decrease between 30% and 45% compared to its value in 2019. As shown in the Table, FDI inflows will show negative growth in 2020 in all country groups regardless of developed or developing countries. These similar rates of decline in FDI inflows reflect that an economic problem seen anywhere in the world can easily spread to other regions due to improved integration.

The spread of the pandemic in GVCs is so wide that 94% of fortune 1000 companies are reported to experience GVC disruptions caused by the pandemic (Fortune, 2020). The top MNEs in the GVCs were among the first to be affected by the GVCs breakdown and falling global demand.

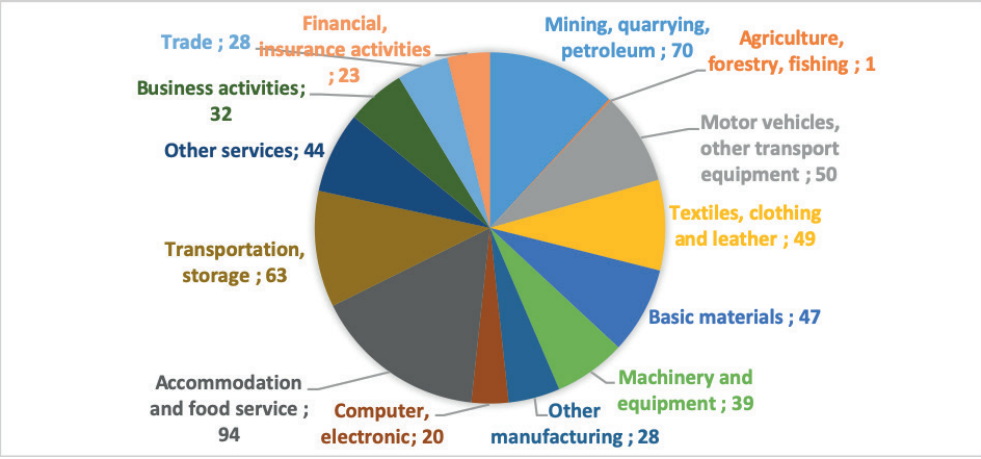


Figure 11: Average Earnings Revision of MNEs as of May 11 (%)
Source: World Investment Report, 2020

The Top 5000 MNEs, which make up most of the FDI, have revised their expected earnings in 2020, on average, by 40%. As shown in Figure 11, the biggest revision in earnings was made in the service sector due to the direct effect of lockdown, with a 94% drop in accommodation and food service earnings and 63% reduction in transportation and storage earnings. The effect of a falling global demand on oil prices led to another major revision of a 70% decrease in the earnings of mining industries. The automotive and textile sectors suffered greatly due to GVC breakdowns created by both demand and supply shocks caused by the pandemic. An estimated loss of earnings in motor vehicle and other transport equipment sectors is 50%, followed by the textile sector by 49%. Overall, industries which are forecasted to lose 30% or more of their earnings together account for almost 70% of FDI projects. Declining profitability will also hurt reinvested earnings, which will account for 50% of the FDI. Similarly, new investment project announcements and cross-border mergers and

acquisitions in the first quarter of 2020 recorded a 50% decrease compared to last year. New deals have decreased by more than 40% in global project finance, which is an important resource for infrastructure projects (World Investment Report, 2020).

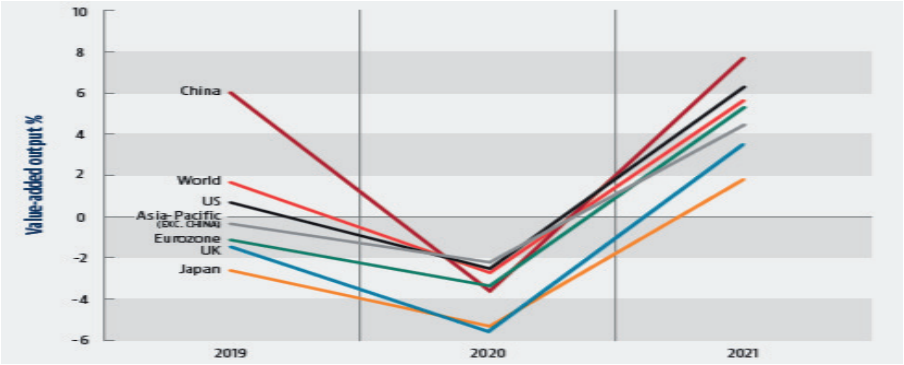


Figure 12: Forecast: Global manufacturing value-added output
Source: Baker & McKenzie, 2020.

Figure 12 points out that global manufacturing value-added output is forecasted to rise by 6% in 2021. Having a shape of a steeper V, China is expected to have the sharpest rebound reaching higher value than before COVID-19 in 2021. Whether this prediction is an indicator of the type of the recovery from the economic crisis brought by COVID-19 seems to depend partly on the success of the coronavirus vaccine studies. Although the pandemic may be brought under control in the near future, the demand crisis it created, income losses caused by the deteriorating economic conjuncture, decrease in purchasing power, and the continuing fear and anxiety due to the pandemic may prevent the rapid recovery in private consumption expenditures leading to the continuation of the existing supply crisis.

6. Concluding Remarks

An important consequence of both the 2008-09 Global Financial Crisis and the crisis that emerged with COVID-19 in terms of global outsourcing and trade is the increasing dependence of countries on a single input supplier. This causes the disruption seen in one part of the chain to easily spread to other parts, breaking the GVCs and reinforcing the impact of the crises on production and trade. Developments in China therefore have become extremely important for production in many global industries. While disruptions in the chains where necessary health materials are produced increased the risk in terms of health, the break in the chains in other sectors deepened the economic bottleneck. Therefore, it is important for countries to differentiate their supplier base to diversify the risks. The speed and ease of this kind of strategic change will be determined by how dependent each country is on China in production processes as the

extent of dependency changes from country to country. In this regard, developing countries with efficient production capacity and the necessary talent in different sectors could compete with China within the GVCs. For this purpose, countries can re-create an incentive structure in the sectors they have chosen and reduce the proliferation of global economic risk factors.

On the other hand, in order to be integrated in the global production system, it is no longer enough for developing countries to engage in production with low labor costs. Today, GVCs depend on the flow of goods, services, and information made in more sophisticated and competitive networks. It is therefore highly essential for countries to establish a sound business environment with institutional reforms rather than their production capabilities. Moreover, the restructuring of GVCs seems inevitable as with COVID-19, global production and trade processes are predicted to change significantly. Countries should also adapt to the changing process in the context of their technological infrastructures, governance issues, and bureaucratic structures. In this regard, governments should implement policies to regulate competition, reduce trade costs, and integrate practices that will facilitate domestic firms' integration into the system.

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CHAPTER 1.2.

THE EFFECTS OF THE COVID-19 PANDEMIC ON THE EXCHANGE RATES OF THE FRAGILE SEVEN COUNTRIES

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Abstract

This study aims to analyze the exchange rate fluctuations in seven fragile emerging market economies (EMEs), with similar macroeconomic structure characteristics such as a high short-term external debt, low official international reserves, and dependency on foreign capital inflows, underlined by the IMF at the onset of the COVID-19 crisis. After the COVID-19 outbreak, the first sudden impact of uncertainties appeared on the portfolio outflows from EMEs. The spillover effect of the excess liquidity through unconventional expansionary monetary policy and helicopter money created by the expansionary monetary policy by the FED did not lead to any repeating portfolio flows from advanced economies to EMEs, contrary to the Global Financial Crisis of 2008-2009. Thus, the risk-off sentiment of investors led to capital reversals, which in turn, brought about the sudden depreciation of many emerging market currencies. However, differences in the size and time of depreciation rates raise a question about the relative importance of push and pull factors on the fluctuations in these currencies. From this point of view, the research found out that push factors like the Volatility Index (VIX) affect national currency immediately and adversely. In contrast, the effects of the pull factors on exchange rates are asymmetrical. In this setting, good economic performance helps to mitigate depreciation while the bad indicators accelerate this depreciation in the currency.

Keywords: Sudden stop, exchange rate depreciation, fragile seven, emerging market economies, COVID-19.

1. Introduction

Although the COVID-19 pandemic occurred on December 29th, 2019, its cost to the world economy started to appear after 11st of March 2020. It simultaneously caused health and economic crisis affecting the entire world. It is such a severe financial crisis that international organizations like the International Monetary Fund (IMF), World Bank (WB), and Organization of Economic Corporation and Development (OECD) have revised their growth forecasts for the 2020 downside more than once since the end of 2019. Comparing this to the cost of the Great Financial Crisis (GFC) of 2008 for the world economy and country groups, it is a crisis where expectations diversify dramatically from the former, and economic relief packages announced by almost all governments were multiplied in the line with this fact.

COVID 19's effect in all countries is monitored by quarterly growth data or monthly Purchasing Managers' Index (PMI). For example, the PMI was around 51 in China, Japan, and France before the pandemic, but after that it plunged to 40, 29, and 31 levels respectively after the crisis, (IHS Markit, 2020). In addition to the direct cost of shutdowns in the service sector that requires face-to-face contact with the client, diminishing demand caused by decreasing income due to the shrinking employment market is a source of indirect cost. In addition to these, in developing countries another cost incurred by COVID-19 is the sudden stop of capital inflows. According to IIF statistics, net portfolio outflows reached a record high level of $83.3 billion from EMEs in March 2020 (IIF,2020). Thus, emerging economies with high foreign exchange (FX) denominated short-term external debt, decreasing international reserves, and current account deficit issue found themselves in a difficult position with capital flight.

The subject of this chapter is to discuss the risks coming from the sudden stop in capital movements due to COVID-19 on countries with similar macroeconomic structures, whom the IMF referred implicitly as the fragile seven in World Economic Outlook (WEO) April 2020. Moreover, the chapter will analyze how a sudden stop in COVID-19 diverges from previous sudden stops and whether it is a result of the fragility of these developing economies in their macroeconomic structure or the change in the risk sentiment of international investors in the market.

The chapter has five sections. The first section includes a literature review regarding how EMEs are dependent on foreign capital inflow, leading factors to a sudden stop, and how a sudden stop makes emerging markets fragile. The second section discusses the impact of the COVID-19 pandemic on global capital movements, and the risk of this impact for EMEs. The third section will address the macroeconomic situation in EMEs before COVID-19. This is

followed by an evaluation of how a sudden stop influenced the foreign exchange rates in the fragile seven countries and which factors had more explanatory power on the prediction of capital outflow by descriptive and comparative methods. The fifth section concludes the chapter.

2. Literature Review

Global financial deepening has increased cross-border capital flows. In the early 1980s, when financial liberalization began, the global gross domestic product (GDP) was $10 trillion, while the financial stock exceeded $12 trillion (Altun & Mutan, 2007). However, this gap between real and financial stock rose in favor of financial stock, surpassing US$ 220 trillion (SIFMA, 2020) against $90 trillion in global GDP 2019 (WB, 2020). Thus, such an escalation in financial deepening, which grew from 109% to 250%, created a natural channel for the cross-border portfolio movement. At first, this movement concentrated on developed countries; then, progressively turned towards developing countries. For example, while 95% of the international capital flows moved among advanced economies such as the USA, the EU, and Japan until the 1990s, it started to flow to developing countries after 2005.

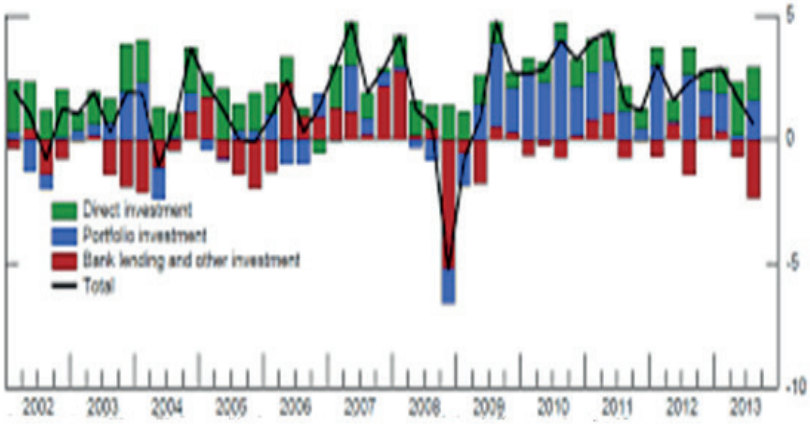


Figure 1: Net Private Capital Inflows (% of GDP)
Source: Ahmed & Zlate, 2014

Figure 1 shows the net private capital inflows to EMEs between 2002 and 2013. While foreign direct investment had the largest share in total capital movements in the early 2000s, net outflows are observed in portfolio investment, and loans in the banking sector. Although net portfolio inflows to EMEs started in 2003, the continuity of this movement coincides with the post GFC. Since then, the largest share of the capital flows towards EMEs has shifted to the portfolio investment.

In the global financial order, to compensate for their savings gap, foreign capital inflows appear to be a welcome alternative to developing countries as surging capital inflows increase the value of the national currency, create a credit boom with liquidity abundance, and accelerate the economic activity. However, when foreign capital inflow is unexpectedly fast, some negative consequences may occur. For instance, the escalation in capital inflow may create a bubble in asset prices, disrupt efficiency in resource allocation, and appreciate the national currency in a way that makes a deficit in foreign trade (Forbes & Warnock, 2020). However, the opposite situation is no less dangerous. If net foreign capital leaves a country rapidly (Calvo, 1998) and unexpectedly, or there is a sudden stop in capital inflow to the country, financial crises might appear (Salas, Alaminos, Fernández, & López-Valverde, 2020), (Blanchard, Ostry, Ghosh, & Chamon, 2015). Indeed, the sudden stop in net capital inflows harms many macroeconomic variables. The initial and the fastest impact occurs in the depreciation of the national currency. Then, it causes a slowdown in economic activity in proportion to the dependence of the production structure of the country's economy on imports. Additionally, it may increase the liabilities of firms with high foreign currency indebtedness, making their balance sheet riskier, and may even lead to bankruptcy (Forbes & Warnock, 2020). Parallel to this, unemployment will increase and the GDP will decrease (Salas et al., 2020). Also, the depreciation of national currency will transmit the price levels via the exchange rate pass-through mechanism, which will exert pressure to increase inflation.

To sum up, although the sudden rise or sudden stop in capital flows causes a couple of problems for the country of investment, the cost of macroeconomic issues originating from the sudden stop is much more noteworthy as it may mean a currency crisis, debt crisis, and/or financial crisis. Calvo (1998) explained how a sudden stop in capital flow could lead countries to the financial and balance of payment crisis, even if this deficit is financed entirely by foreign direct investment.

The reversal or sudden stop of capital flows can bring about a debt crisis or cause a sharp decline in productivity in the existing capital stock. Unexpected fluctuation in relative prices may lead to consecutive bankruptcies (Reinhart & Calvo 1999). The loss of a financial crisis caused by a sudden stop is much more massive than different kinds of financial crises' losses. In general, the contraction in GDP would be 2-3% in a financial crisis. However, in a financial crisis caused by the sudden stop this is an additional 6-7%, a specifically fragile situation for EMEs (Hutchison & Noy, 2012). Because the sudden stop most probably results in banking crisis, it makes the real cost to the economy twice, by itself and with protracted impacts of banking crisis (Reinhart & Calvo 1999). Figure 2 shows the total number of sudden stops

between 1960-2020. Even though nearly 30 EMEs and 10 advanced economies faced a sudden stop in 2009 GFC, EMEs have not experienced capital reversals on the huge scale as observed in the COVID-19 crisis since Volcker's disinflation policies in 1982 (Salas et al, 2020).

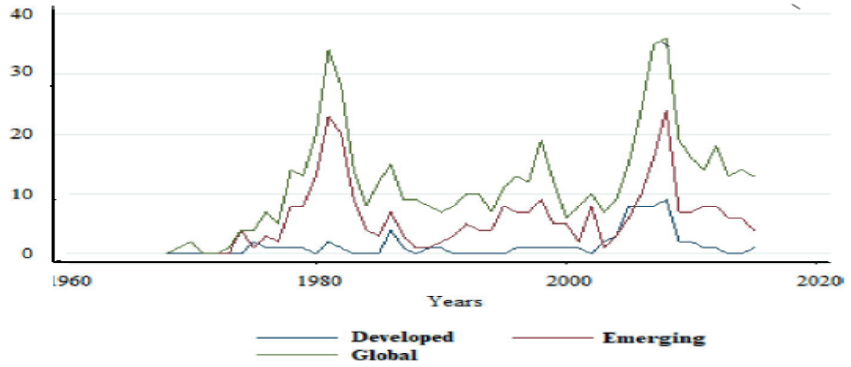


Figure 2. Number of Sudden Stops in the World Between 1960-2020
Source: Salas et al., 2020.

In literature, factors that attract portfolio inflows to the country or lead to reversal from country are generally categorized under 2 groups as pull and push factors (Table 1).

Table 1. Factors leading to a sudden stop

Pull Factors				**Push Factors**
Macroeconomic	**Financial**	**External**	**Cross-Country**	**Global**
Real GDP Growth (%)	M2 Growth	Current Account to GDP	Exchange Rate Regime	GDP Growth of G7
Domestic Real Interest Rate	Dept of Financial System	External Debt to Exports Ratio	Openness	Foreign Interest Rate
Central Govt. Debt to GDP	Return to Stock Market Index	Terms of Trade Adjustment	GDP Per Capita	Global Volatility, VIX
Inflation	Domestic Credit to GDP	Real Exchange Rate	Capital Control	M2 –Growth of World
		M2- International Reserve Ratio	Geographic Proximity	
		Foreign Direct Investment to GDP		

Source: Salas et al., 2020, Reinhart & Reinhart, 2008, Fratzcher, 2011, Forbes &Warnock, 2012

Push factors are also known as global factors that affect not only the invested country but also global portfolio flows. So they are in common for all developing countries such as US monetary policy, US interest rate, global volatility (VIX), risk appetite in markets, or the COVID-19 outbreak. The pull factors are divided into four subgroups: macroeconomic, financial,

external, and cross country factors which are country-specific factors and are related to the country of investment's macroeconomic variables. They aim to show the investors the performance of the economy, such as growth, inflation, fiscal balance, current account, total debt nominated in foreign exchange, structural reforms, productivity shocks, etc. (Mahecha, 2011).

Many papers aim to evaluate the absolute and relative importance of push and pull factors to attract foreign capital into developing and emerging economies. Although some economists highlighted the domestic factors as the main reason for capital inflows (Calvo, Leiderman, & Reinhart, 1996; Ying & Kim, 2001; Fratzcher, 2011; Ahmed & Zlate, 2014), this hypothesis seems more meaningful for the period before GFC. On the other hand, most of the succeeding models concluded that external factors dominated in explanatory power in the prediction of capital flows, especially after the GFC and taper tantrum of 2013 (Forbes &Warnock, 2012; Ahmed & Zlate, 2014; Bruno & Shin, 2015; Cerutti et al., 2017; Aizenman & Binici, 2016). These are crucial since before COVID-19, GFC and the FED's taper tantrum were two examples of sudden stops seen in emerging and developing countries. Forbes & Warnock (2020), Aizenman & Binici (2016) investigated whether the GFC changed the significance of factors affecting capital flows. They revealed that the crisis changed the relative significance of push and pull factors. Although the pull macroeconomic factors such as GDP per capita or inflation had more explanatory power to predict portfolio inflows to EMEs before GFC, along with pull factor-like short term external debt, push factors such as US monetary policy and the VIX has been found to have more relative significance during and post-GFC (Aizenman & Binici, 2016). For example, the FED›s low-interest-rate (cut-rate) policy increased capital movements towards developing countries. In contrast, its high-interest rate policy, like the taper tantrum of 2013, pulls back the capital out of these countries (Mahecha, 2011). On the contrary, when all the types of capital flows (surge, stop, flight, retrenchment) were analyzed considering their period (before the GFC 2000-2007, GFC 2008-2009 or post crises 2010-2018) in the EMEs, Forbes and Warnock (2020) claimed that after the GFC, the relationship between the capital flows and global risk and growth weakened. Thus, they stated that global growth is not useful to predict capital flows, and the global risk is only meaningfully related to the stops. A significant but less correlated relation is present between economic growth and capital surges, but no relationship exists between economic growth and stops. Investigating whether it would be a change in portfolio structure in capital movements of EMEs, the continuation of the debt-driven movement is striking after GFC, too. While the total debt-driven flows accounted for 72% of total capital movements before the GFC, this ratio hiked to 88% in the post-crisis period. When the debt-driven capital movements are examined considering sudden

stops, a deduction in banking driven flows is striking. While it was 60% in the first period, it increased to 81% in the second period. Whereas capital inflows increased from 41% before GFC to 44% after GFC, portfolio debt inflows rose from 15% in the first period to 23% in the second period (Forbes & Warnock, 2020). Aizenman and Binici (2016) found that market risk appetite, liquidity, and US monetary policy have a significant role in portfolio inflows to or outflows from EMEs. Similar to this, after analyzing sudden stop in capital flows for 73 emerging and 30 developed countries by using artificial intelligence techniques, Salas et al. (2020) put forward that the most important variable for absolute and relative sudden stop models is the exchange rate regime for EMEs. In addition to this, they claimed that inflation, global GDP, stock return, current account deficit, external debt, international reserves, and global volatility are other important variables that explain the variance in portfolio flows. On the other hand, some economists suggest that risk factors were less critical over portfolio flows than they were before GFC (Goldberg & Krogstrup, 2019), while some stress that the fluctuations in the US $ have more explanatory power than they had before GFC.

When the FED raised the federal funds rate the first time after GFC (taper tantrum) a 10-year period without any rise in the interest rate ended (Forbes & Warnock, 2020). The taper tantrum on portfolio flow reflected that nearly one out of every four economies experienced the sudden stop, and one out of five economies faced retrenchment. This rate was lower compared to the sudden stop experienced by one-third of the world before GFC and much smaller than the sudden stop seen in four out of every five countries in 2008-2009. Similarly, the interest rate's dramatic increase in 2015 caused a sudden stop in 43% of EMEs. It is striking that, compared to the sudden stops which affected only 31% of EMEs before GFC, any reversal in capital flows has threatened the EMEs more since then. Additionally, Forbes and Warnock explained that another common feature of sudden stops in the EMEs is also the liquidity abundance in an environment with the high current account deficit, overvalued exchange rate, and weak macroeconomic indicators (Forbes & Warnock, 2020).

Although portfolio investment moves from advanced economies with a saving glut to developing countries with saving gaps, most of the short-term foreign investment flowed into EMEs after GFC. The higher borrowing costs of EMEs in all developing countries expose these countries to the risk of financial crisis due to a sudden stop. For this reason, crises arising from capital outflows in EMEs have been analyzed many times (Calvo,1998; Reinhart & Calvo, 1999; Calvo, 2007; Agosin & Huatita, 2012; Aizenman & Hutchison, 2012; Ahmed & Zlate, 2014; Blanchard et al., 2015). The common point of all studies investigating the sudden stop in EMEs is that they always found a capital boom before the sudden stop and

financial crisis. The studies found that as the foreign capital inflows rise, economies are exposed to more capital reversal risk than before (Edwards, 2007). An increase in capital inflows creates liquidity abundance and this results in an increase in the indebtedness levels of the countries to that extent. The indebtedness ratio of developing and emerging economies reached a record high level between 2010-2020. This increase is striking both in terms of speed and broad base. For instance, while the ratio of the total debt to GDP in developing and EMEs was around 60% in 2010, this ratio spiked to 170%, increasing approximately threefold at the beginning of the pandemic (Köse et al, 2020).

Although China owns the largest share in this borrowing, this ratio is above 100% in 80% of all developing and EMEs excluding China. Figure 3 illustrates four major capital boom and borrowing waves between 1970 and 2018 in the world (Köse, Ohnsorge, Nagle, & Sugawara, 2020). In the first wave, the reason was the fluctuation in low real interest rate debts that flowing mainly into Latin America and Sub-Saharan countries under the leadership of IMF and WB between 1970 and 1989. The second wave is the period in which East Asia, Pacific countries, Europe, and Central Asian countries started to borrow heavily in foreign currency because of liberalization between 1990-2001. The Mexican Crisis, the Russian Crisis, and the Asian Crisis were examples of the crisis resulted from boosting those second wave. The third debt fluctuation that increased private sector debt in Europe and Central Asia with low real interest rates resulted from the monetary expansion policy of EU between 2002-2009. Greece and Italy's debt crisis are an example of the third wave. The fourth and the last wave in this period when COVID-19 broke out is the period when both public and private sector indebtedness ratios reached a record high level, which started as a result of unconventional monetary policies of developed countries in 2010 due to GFC (Köse et al., 2020; Fratzcher, 2011). The great debt wave experienced after GFC is the fourth largest debt surge in the world economy between 1970-2020 (Köse et al, 2020).

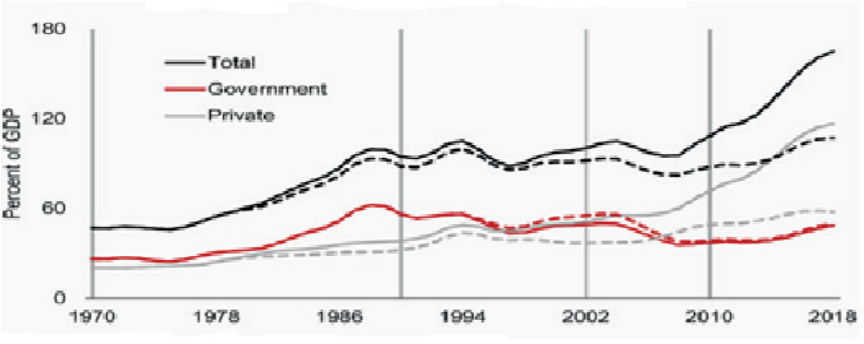


Figure 3: Debt in Emerging Markets and Developing Economies
Source: Köse et al., 2020

These four debt waves have some common features. All of them emerged with a low-interest-rate environment, financial innovation, or facilitated borrowing opportunities in financial markets. In the end, they all resulted in a wide and profound financial crisis, like in 1982, 1991, and 2009, or turbulence in 1998 and 2001. The event that ends the expansion period is the emergence of a shock that will lead to a risk aversion by investors and an increase in risk premium and cost. For this reason, any sudden stop in portfolio investment made these countries implement the political reforms aimed at increasing international reserves by plunging these countries deep into recession. The significant difference between fluctuations is the positive divergence of private sector debt during the last debt wave. The increase in private sector indebtedness strikingly exceeded public debt in this last wave. A shrink in commodity prices is one of the main reasons for the surge in government debt in 2014-2015. Recently, another distinguishing point of EMEs' debt composition has been to increase in indebtedness of the non-banking financial sector in the economy.

Some reasons for the depreciation of national currencies of EMEs so early are their corporation debt levels denominated in FX despite having low official reserves, their governments' budget deficits, and their current account deficits that are four times greater than what they were just before the GFC of 2007-2008. Twin deficit leads to a negative motivation for international investors and their risk aversion attitude on behalf of USA dollars as a safe haven. As seen in Figure 3, the debt ratio to GDP in EMEs has risen every single year for the last twenty years. Dashed lines illustrate the picture of the situation in EMEs, excluding China. The most dramatic change in the cumulated debt ratio is seen in the private sector debts. Its growth rate accelerates, especially after the Taper Tantrum. Unfortunately, the COVID-19 outbreak hit EMEs at a time when most of them had low official international reserves. This situation makes it harder to get capital inflow and rollover of the external debt. Even if it is so, it causes a higher interest payment for an external debt due to higher risk premium (Çakmaklı, Demiralp, Kalemli-Özcan, Yeşilyaş, & Yıldırım, 2020).

Similar to the claim of the changing relative importance of push and pull factors after GFC, there is another assertion that suggests an asymmetrical relative importance relationship between pull-push elements and portfolio flows resulting from COVID-19 (De Bock et al., 2020). They found out that while weak macroeconomic indicators trigger the portfolio outflows, strong domestic fundamentals did not lead to surge capital inflows but ensure a smoother transaction.

Finally, another type of relationship between a sudden stop and a speculative attack is examined from the perspective of institutional economy (Ma & Wei, 2020). The institutional

economists said that equity has a larger share in portfolio inflow compared to debt in countries with strong institutions. On the other hand, countries with poor institutions may be exposed to more sudden stop risk as portfolios formed with debt weighted because equity investment is closely connected more to legal and institutional regulations compared to debt financing. If the required legal regulations in a country do not protect foreign investors' rights, capital inflow through debt will be preferable for foreign investors. Therefore, the strong states need capital control less to restrain the outflow, while this policy may turn to a necessity for vulnerable countries (Ma & Wei, 2020).

3. The Risks Triggered by the COVID-19 Pandemic to the Financial Markets in the Fragile Seven Countries

COVID-19 brought global economic, political, and collective risks to light simultaneously with risks in health. These risks differ based on the countries' development levels. Considering the scope and size of relief packages, the G7 countries' economies are expected to recover faster compared to developing countries with a limited budget and borrowing facilities. In this respect, as developing countries have been trying to cope with the direct and indirect costs of the pandemic, an unprecedented crush in portfolio investments exposes EMEs to another threat. In the WEO report, which the IMF revised in April '20, a group of EMEs countries is entitled implicitly the fragile seven (IMF, 2020a). These countries are Brazil, Colombia, Egypt, India, South Africa, and Turkey. Common features of the fragile seven countries are similar macroeconomic structure and dependency on foreign financing due to high external debt. In other words, it is the similarity of pull factors that affect capital flows. It is estimated that the costs of COVID-19 may be higher than it may be in the other developing countries due to these common features.

The growth expectations of the IMF in the fragile seven countries for 2020 and 2021 are expressed in Figure 4. The IMF had to revise its estimates downwards both in April and June subsequently. The figure shows both revised projections. In the April report, all group countries except India are projected to shrink, while in the new report, it is estimated that India will shrink by 4.5%. Contrary to the previous report, they expect increases in economic activity only for Egypt. Moreover, the expectation for Egypt has undergone a radical upward revision from -5.8% to 2%. In the last report, the biggest contraction was foreseen for Brazil, S. Africa, and Turkey for 2020, while a moderate downsizing was predicted for Colombia. Also, there were no change in forecasts for Turkey, Colombia, and Hungary in June, meaning no upsizing or downsizing. The IMF estimated the positive economic performance of all countries in 2021. Following India with the highest growth rate by 6%, the Turkish economy

ranks second with a 5% growth rate. While the report revised the forecast for growth in Brazil upwards, it revised downwards for India and Egypt. Thus, the IMF accepts a V-type of economic recovery for the fragile seven countries (IMF, 2020b).

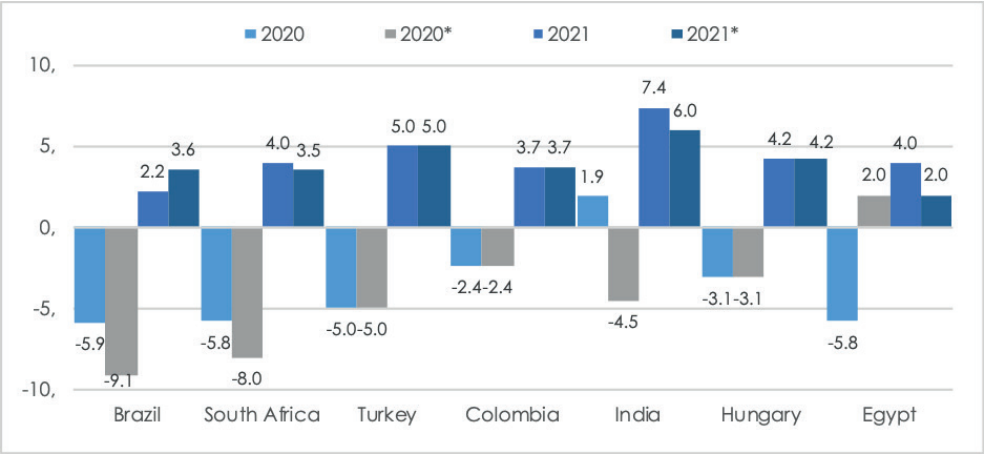


Figure 4. The expected economic growth rates in the fragile seven countries in 2020-2021. (%)
Source: IMF, World Economic Outlook, 2020a, 2020b. 2020* and 2021* show the revised growth projections in the June report.

As explained in the previous section, to predict sudden stop risk for any country, certain pull factors such as a current account to GDP, real exchange rate, domestic credit to GDP, capital flow to GDP, external debt to exports ratio, terms or trade or M2 to international reserve ratio are evaluated. So, Table 2 depicts the macroeconomic variables, including some of these indicators for every single country as of the end of 2019. According to Table 2, Turkey and Egypt have the highest inflation rate in the group with 11.8 % and 9.4%, respectively. Inflation is between 3.7% and 5.8% and moderate in all other countries. Except Hungary, with a 5.39% unemployment rate, almost all of the fragile seven countries are suffering from a high level of unemployment. The most dramatic situation is seen in South Africa, where nearly one in 3 people in the labor force is unemployed. Turkey ranks second with 13.7% after S. Africa. The economic growth rate of all countries in the group in 2019 is positive; however, Egypt, Hungary, and India›s economic performance differ from Brazil, South Africa, and Turkey that were close to recession. Considering budget deficit, Colombia and Hungary have a tight budget discipline with -2.15% and -2.04%. The general government borrowing rate in Egypt and India is more than others are. With the lowest ratio of internal dept to GDP of 33.1% in Turkey, this is followed by Colombia with 52.9%. In terms of official reserves, India and Brazil's official reserves are almost over ten times that of Colombia, Egypt, S. Africa, and Hungary.

Table 2. Macroeconomics indicators for fragile seven countries in end-2019 (%)

Countries	Brazil	Colombia	Egypt	Hungary	Indian	S. Africa	Turkey
Inflation[a]	4.3	3.8	9.4	4.0	5.8	3.7	11.8
Unemployment Rate[a]	11.9	12.2	10.29	5.39	N/A	35.13	13.7
Economic Growth Rate[a]	1.1	3.3	5.6	4.9	4.2	0.2	0.9
Budget Deficit[a]*	-6.01	-2.15	-7.40	-2.04	-7.44	-6.25	-5.26
Internal Debt Stock[b]*	89.5	52.9	83.3	66.3	71.9	62.2	33.1
External Debt Stok (blln $)	573.65	139.12	109.36	157.49	557.38	177.68	436.9
Current Deficit*	-2.69	-4.26	-3.60	-0.77	-1.12	-3.01	1.66
Official Reserves	356.88	58.27	55.70	32.22	461.83	55.06	105.7
Official Reserves*	0.19	0.18	0.18	0.2	0.16	0.15	0.14
Gross Official Reserves/ Gross External Debt[d]	0.62	0.42	0.51	0.21	0.83	0.31	0.24
Gross Ext. Debt/ Exports	257	352	377	127	172	197	241

Source: [a]IMF, World Economic Outlook, April 2020[a], [b]IMF, Global Fiscal Monitor 2020[c], [c]authors calculation based on data retrieved from https://www.ceicdata.com/en/indicator/turkey/external-debt;[d]authors calculation based on data retrieved from WTO, Data Portal retrieved from https://timeseries.wto.org/
*percent of GDP

Emerging countries need foreign exchange to catch up with their production activities somewhere close to its potential level. As seen in Table 2, developing countries had a current account deficit since they suffer from inadequate savings to meet their import expenditures. Since Turkey grew by 0.9% in 2019, relatively less than its potential growth rate, it is the only country having a 1.66 % surplus in the current account to GDP (current deficit* row in Table 2).

Because the economic growth in emerging countries is heavily based on the imported raw material or semi-final goods, there is a dilemma on economic growth and current account deficit for these countries. Thus, they require a continuous foreign capital inflow into their economies to finance their trade deficit. Also, as seen in Table 2, emerging countries are net indebted countries whose debt is dominated heavily in the US dollar or Euro. To service their foreign debt, they require a steady flowing capital into their economies. In sum, vulnerabilities of EMEs such as high debt, low FX reserves, weak balance sheets, and limited policy credibility have exacerbated the capital outflow from EMEs with the risk-off sentiment of markets since COVID-19 (Çakmaklı et al., 2020).

4. Sudden Stop of Portfolio Investment to the Fragile Seven

If a country faces a 5% decrease in capital inflow compared to the previous year, or the standard deviation of capital inflow from its sample mean exceeds more than two, then it is a sudden stop for that country (Calvo, Izquierdo, & Meija, 2004). Before the sudden stop, the

country generally enjoys a credit boom. Excess capital flows to EMEs causes an overvalue in national currency, decrease in interest rate, and increase in domestic demand; thus, a current account deficit. On the other hand, falling inflation, and a high growth rate enhanced the short-term external debt stock, a sufficient reason for the sudden stop in EMEs and drafting them into a liquidity crisis (Altun & Mutan, 2007). Even though weak domestic and external demand resulted from COVID-19, the decline in prices of raw materials, which are the main export items of most developing countries, a high private sector debt ratio denominated in national or foreign currency, and low international reserves, the implemented expansionary monetary and fiscal policy to cope with COVID-19 raised these countries risk premiums. This increases the cost of foreign finance, and consequently, increasing depreciation expectation in currency leads capital outflows putting EMEs in a clamp. An expectation of a fall in currency value leads international investors to pull their savings out of that country and restrain the new investors from investing their savings into the home country. The depreciation expectation comes true, as with the melting net official reserves of the country, the net capital inflow is getting lower and lower, resulting in devaluation of the country's currency. This situation is sudden stop (Calvo, 1998).

Together with the COVID-19 outbreak in early 2020, emerging markets' capital inflows declined dramatically. Short-term portfolio movements also continued to show record outflows in 2020: Q2. As the COVID-19 outbreak spread throughout Europe and America, portfolio investment realized a sudden stop to emerging markets, including China and India. According to IIF data, capital outflow recorded a historically low level in March 2020. Within a single month, almost US$ 83.3 billion (US$ 52.4 billion for equity and USD 31 billion in dept) capital outflowed from EMEs to advanced economies such as France and Germany because of investors' risk-off sentiment at the time of rising global risk. The IIF estimated around US$ 103 billion portfolio flight from EMEs between mid-January and mid-May. The expectation of cumulative capital flows to EMEs in 2020 is almost US$ 444 trillion, that is less than half of the magnitude in 2019 (US$937) (IIF). As shown in Figure 5, capital reversal is striking in all the fragile seven countries in 2020,Q1. In Brazil, Turkey, and Hungary, outflows from the stock market dominated debt outflows, whereas it is vice-versa in India, S. Africa, and Colombia. Although there is no official detailed data for Egypt, at the peak of the risk aversion sentiment during March and April, Egypt experienced capital outflows of nearly US$16 billion (IMF). Moreover, capital outflows were too fast in Brazil, South Africa, and India compared to Turkey and Colombia in the first quarter of the year. However, capital outflows were intensified by an additional reversal of over US$10 billion in Turkey in

2020,Q2. Whereas Brazil experienced additional capital outflows amounting to US$ 4 billion for the same period. Thus, it can be said that the speed of investment reactions in every country is different.

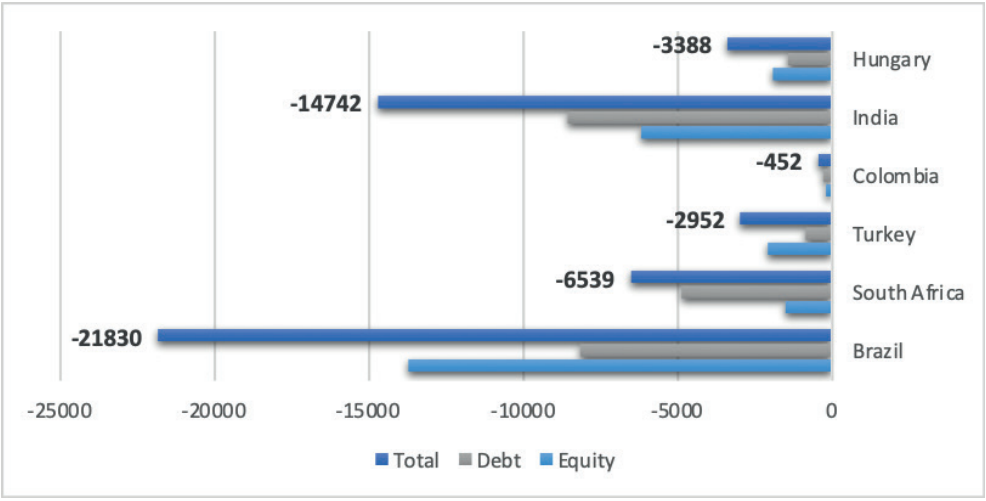


Figure 5. Net portfolio liabilities in 2020Q1 (billion USD) *No data are available for Egypt
Source: IMF

Figure 6 illustrates that the outflow from the emerging market during COVID-19 is an unprecedented capital reversal, and worse than what happened during the global financial crisis of 2007-2008. Capital flight from EMEs due to COVID-19 is more than double that of GFC. COVID-19.

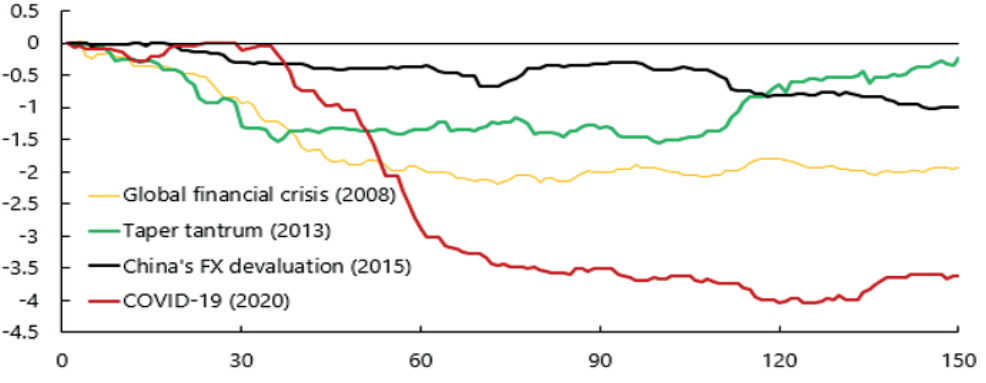


Figure 6: Cumulative non-resident portfolio flows to EMEs (of IPP).
Source: IMF, 2020[b].

The initial effect of the decreasing portfolio investment and net outflows were seen in foreign exchange rates. Figure 7 shows the period between January 1st and August 21st, the exchange rate depreciation of each of the fragile seven countries against US $, and the maximum depreciation rate in the period. It is seen that all currencies, apart from the Egyptian Pound, depreciated against $. The Pound stayed stable year-to-date as if it adopted the fixed exchange rate regime. The most depreciated currency within the eight months is the Brazilian Real with a considerable decline of 39%, followed by S. Africa Rand's 22.85%, Turkish Lira's 21.3%, Columbian Peso's 16.8%, Indian Rupee's 5%, and Hungary's 1%. The Pound, thus, differs from the group positively because of the strong growth expectation. Additionally, Egypt requested Rapid Financial Assistance of US$ 2.8billion from the IMF in May, and they approved. Then, Egypt signed a 12-month Stand-by agreement with access to US$ 5.2 billion in June. Thus, the country could access over US$ 7.2 foreign capital. Similarly, Colombia is another country which requested 2-year arrangement of about US$ 10.8 billion from the IMF in May. In other words, Egypt and Colombia needed to be supported by the international institution to cope with the portfolio outflows during COVID-19.

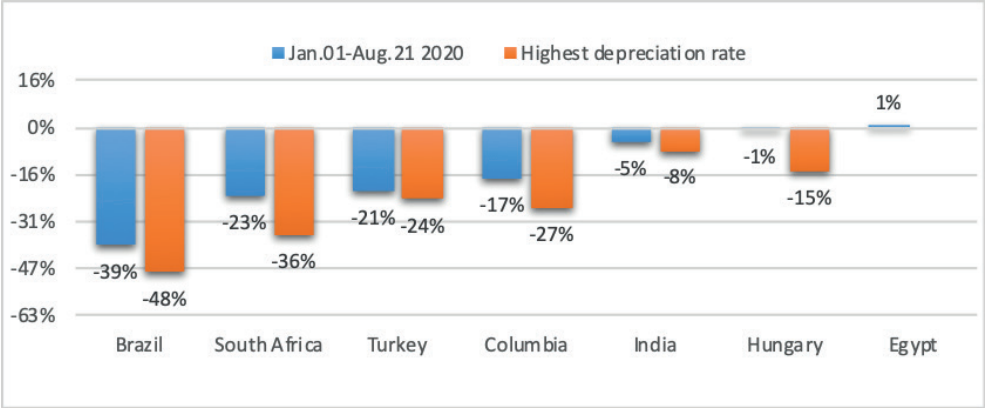


Figure 7. Exchange rate depreciation between Q1:2020 through August 21st and max drawdown
Source: IMF, CBE, CBH

There are three striking points in Figure 7:

i. The ranking of the Brazilian Real and S. Africa Rand, which were the most depreciated currencies, and the Egyptian Pound, which was the least depreciated currency, did not change for the whole period. However, in maximum drawdown ranking, the Turkish Lira was replaced by the Colombian Peso and the Indian Rupee was replaced by the Hungarian Forint. The maximum drawdown in currencies during the whole period were observed in the currencies that were the most depreciated ones at the end of the period. On the other hand, the

Colombian Peso and Hungarian Forint saw a considerable recovery after the first sudden stop between April and March. In other words, Hungary Forint had -15% maximum drawdown, but owing to the considerable recovery, the depreciation for the entire period is -1%, and similarly for Peso from -27% maximum drawdown to -17 % overall drawdown.

ii. The country with the most difference between the end of period value and maximum drawdown was Hungary.

iii. Towards the end of the period, while all currencies started to recover, only the depreciated Turkish Lira converged to its maximum drawdown.

It is possible to have an idea regarding whether push or pull factors have strong impacts on the exchange rate looking into fluctuations of currency and the depreciation of all currencies in time. If fluctuations of exchange rates in EMEs show co-movement patterns, push factors are the driving force, while if the time diversification in exchange rate movements occurs, then pull factors can be detected as a driving force. When viewed from this aspect, Turkey cuts loose from the group negatively because of recent depreciation in the period. It would be misleading to suppose push factors dominance upon Turkish liras devaluation in August. On the other hand, the top dropdown in exchange rates between April and May can be explained by push factors.

5. Decomposition of Push and Pull Factors Leading to a Sudden Stop in the Fragile Seven

There are plenty of studies (Calvo et al. 1996; Ying & Kim, 2001; Fratzcher, 2011; Ahmed & Zlate, 2014; Forbes & Warnock, 2012; Bruno & Shin, 2015; Cerutti et al., 2017; Aizenman & Binici, 2016), analyzing the push and pull factors to determine which set of indicators has more explanatory power in the prediction of sudden stop in EMEs. First, a subsection will discuss the leading push factors such as VIX, CDS, FED policy rate then, pull factors such as GDP growth rate, inflation, interest rate, official reserves, the short-term foreign debt, and M2 for each country in the fragile seven. Thus, the aim is to get a preliminary opinion regarding the relative importance of alternative determinants of the sudden stop.

5.1. Push Factors

Push factors are situations or developments that happen outside of the emerging countries and affect not only the country of investment but also other countries in the global financial market. G7 growth rate, foreign interest rates, Volatility Index, and size of global liquidity are leading examples of these factors.

Implemented expansionary policies to mitigate the consequences of the pandemic have raised global liquidity to the total ratio of credit and loan guarantees to GDP in G7 record-high level after the breakout of COVID-19 (Germany 29.4%, 32.4% in Italy, 10.4 % in Japan, 15.7% Britain, 13.9% in France, USA 4.2%). As is the case with GFC, first, FED announced an assets purchase program, worth US$ 700 billion, with unconventional monetary policies on March 15th; one week later, the European Central Bank (ECB) declared a US$ 1.1 trillion package, then the central banks of England, Canada, and Japan affirmed a US$250 billion asset purchase program. Compared to GFC, it is four times in size (IMF, Fiscal Monitor April 2020). Under normal circumstances, global liquidity cannot be a significant directly proportional variable to explain the sudden stop. Indeed, it is seen that this excess liquidity went towards the advanced economy, in particular, France and Germany instead of EMEs in the case of GFC.

In the same vein, a reversal of zero lower bound on the foreign interest rate does not seem a meaningful argument to a sudden stop either. Usually, driving the interest rate down in a range of 0.00 to 0.25 percent by the FED and setting the negative interest rate with a more radical policy by the ECB can be the explanations of developments that would have encouraged investors to move to EMEs with the aim of acquiring a high return expectation. However, it is observed that excess liquidity has chosen gold as a safe haven asset and other commodities such as silver and copper, that have been ignored by investors up to now as well as advanced economies, in particular their stock markets.

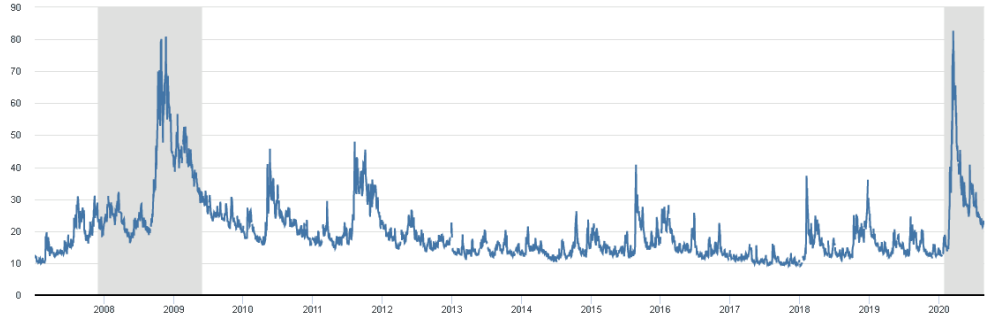


Figure 8: Chicago Board Options Exchange Volatility Index
Source: FRED, St. Louis (2020)

The volatility index (VIX) is another push factor. Figure 8 shows the VIX between 2005-2020. The index has only jumped to peak level in the COVID -19 crisis as well as in the GFC of 2008 for the past 15 years. As seen in the figure, uncertainty perception in markets that was 82.69 on March 16th, has exceeded by a narrow margin the index value of 79.13 in 2008. As seen in Figure 8, while uncertainty perception in markets in 2020 was 82.69, it was limited to

79.13 in 2008. It can be concluded that in March, after COVID-19 was announced as a pandemic by WHO, a close relationship between record high-level portfolio outflows from EMEs and record high-level VIX is apparent.

5.2. Pull Factors

Although it is known that push factors bring about a typical wave in portfolio investment, the size of this wave varies based on the invested country's pull factors. Table 4 illustrates the available, updated fundamental macroeconomic indicators of each country. According to this, the country with the highest growth rate of 5% is Egypt. Both having the highest growth rate, and the real borrowing cost of 9.25% can be the reason for its stable currency. On the other hand, the Indian Rupee depreciated moderately by 5% though its real interest rate is negative. This situation can be explained by having a high reserve to external debt stock ratio and its positive economic growth in the first quarter of 2020. Henceforth, the growth rate is a significant indicator among pull factors. However, the fact that Turkey's growth rate is much larger than that of Colombia; but the Colombian Peso depreciating less than the Turkish Lira shows that the growth rate cannot be evaluated individually.

Table 4. Fundamental Macroeconomic Indicators

	March'20	June'20	July'20	July'20
	GDP Growth Rate	**Unemployment**	**Inflation Rate**	**Interest Rate**
Brazil	-1.5	13.3	2.31	2
Colombia	-14.9	19.8	1.97	2.25
S. Africa	-2	30.1	3.2	3.5
Turkey	0.6	12.9	11.76	8.25
India	1.1	11	6.93	4
Hungary	-14.5	4.6	3.8	0.6
Egypt	5	9.6	4.2	9.25

Source: IMF

A driving factor leading to a sudden stop is mostly a shock that raises the uncertainty and risk in the world. As in the case of COVID-19, this shock, which can increase the fragilities of the countries, can emerge outside their economy, too, meaning being a push factor. One of the indicators that depicts the sovereign fragility of countries is Credit Default Swap (CDS). Figure 9 shows CDS in selected EMEs, and Figure 10 illustrates CDS for just fragile countries year-to-date. As seen in these figures, although Turkey and Egypt were the most fragile countries according to the CDS indicator in the first half of 2020, it does not reflect fatality rates due to COVID-19. For example, while Brazil's daily number of deaths because of the pandemic is the highest of all, and S. Africa's is the lowest, S. Africa's CDS exceeds that of Brazil. So, there is no strict link between fatality and deterioration in CDS for these countries.

Similarly, the reaction of the Egyptian Pound to CDS is surprising as, with the worst CDS, Egypt was supposed to have the largest depreciation in currency. Although the country could access the foreign resources of over US$7 billion thanks to two different IMF agreements in May and June, the Egyptian Pound did not depreciate until the IMF agreements were signed. From this perspective, it is not possible to say CDS is a dominant pull factor, especially considering depreciation in the Brazilian Real did not surpass the South African Rand or the stable Egyptian Pound in the case of having the worst CDS. Similarly, while Turkey is the high-risk country in the group, the depreciation of TL is half of the Brazilian Real.

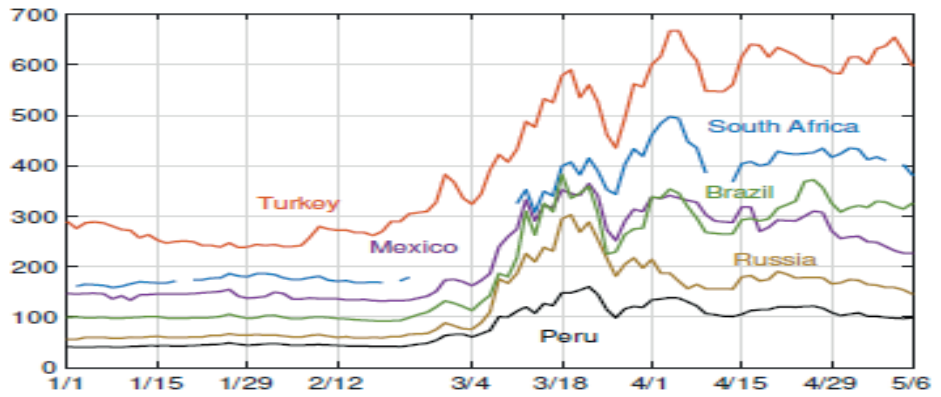


Figure 9: Credit default swap (CDS) spreads for selected EMEs
Source: Arellano, Bai, & Mihalache, (2020). «Deadly Debt Crises: COVID-19 in Emerging Markets," *National Bureau of Economic Research*, 2020, https://doi.org/10.3386/w27275

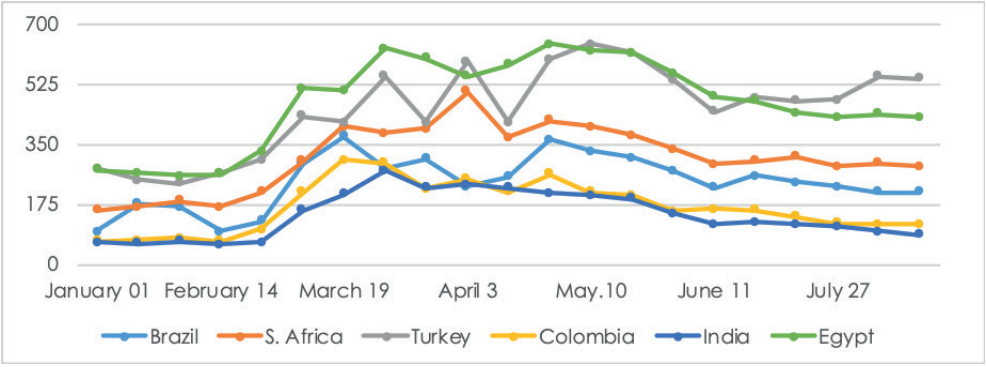


Figure 9. 5 Year CDS for the Fragile Seven Countries in 2020
Source: World Government Bonds
*no data are available for Hungary.

Herein, it is necessary to compare the international reserves change with exchange rates. What kind of policy countries implemented to defend their national currencies is of great importance while considering the explanatory power of the factors over capital flows. Figure

10 illustrates countries' ratio of the external debt, international reserves, and current account deficits to their GDP. There is a close relationship between reserve ratio and limited depreciation in the currencies of Egypt, Hungary, India, and Colombia. The depreciation in the Turkish Lira can be explained by its low reserve ratio. However, the explanatory power of international reserve over capital outflow is invalid for the case of Brazil. Although its reserve ratio is higher than that of the Egypt Central Bank, the Pound was stable for the whole period. Turkey is the most indebted country, followed by Hungary. Low reserve ratio and high external debt can explain the speed of foreign outflows. Even if countries' pull factors are promising, that does not prevent depreciation, instead they slow-down the deterioration in the value of the currency. So, it is found out that the pull factor has asymmetric effects on the Exchange rate in the face of risks triggered by COVID-19.

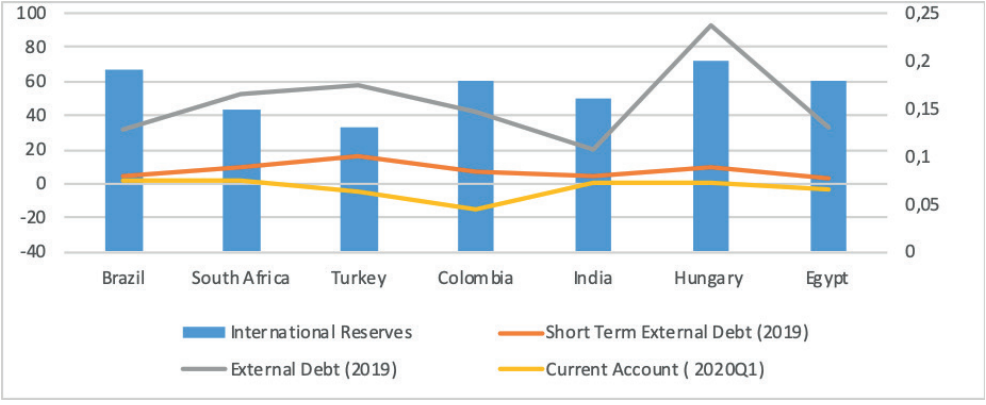


Figure 10. Selected external pull factors (% of GDP)
Source: World Government Bonds

Another pull factor that causes the depreciation of currency and raises the risk is the broad base monetary supply - M2. It is importance comes from the fact foreign exchange is demanded not only by non-resident investors during the reversal of capital but also by a resident who has a high motivation to issue a foreign account due to increasing dollarization. Changes in M2 is of great importance to trace and find out the source of this depreciation. Figure 11 illustrates M2 growth rates in the fragile seven countries between January-June. Obviously, Turkey has the most considerable monetary expansion during the whole period. It is striking that expansionary policy had already been started before the COVID-19 shock in Turkey. Brazil ranked the second country following Turkey. Thus, M2 growth seems a meaningful indicator for Turkey as well as Brazil. This is the case since excess liquidity stimulates the dollarization motives of residents in these countries due to lack of confidence in national currency.

Moreover, the sticky inflation rate due to high M2 growth leads to a negative real interest that triggers the sudden stop and capital outflow because of an increase in the expectation of depreciation of currency during the period. According to the CBRT, a foreign account of residents grew by more than $20 billion years to August (CBRT). Although monetary expansion in Egypt is the average of the group, its high growth rate of 5% mitigates the effects of this expansion.

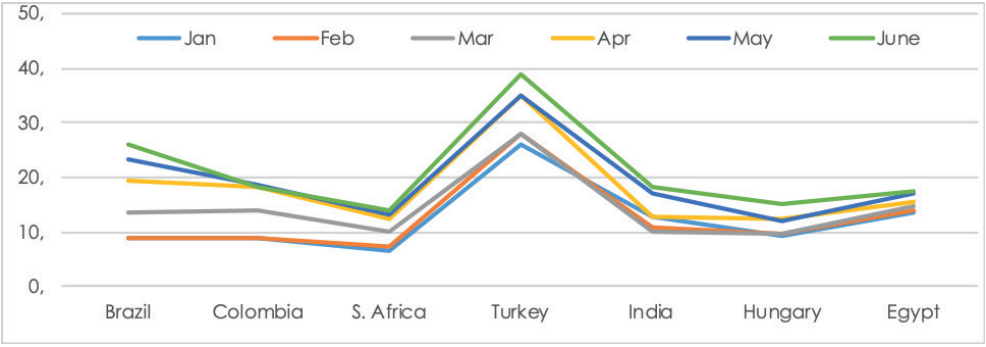


Figure 11: M2 growth rate, monthly
Source: CEICDATA

6. Conclusion

It is hardly possible that EMEs can hit their growth target without foreign capital inflow because of their low saving, the vicious circle of development, and inefficient economic policies. Excess liquidity starting in the mid-2000s accelerated the portfolio investment towards EMEs, while it was also exposed to the cost of the sudden stop more than before. Because the reflection of the increase in capital inflows to the world economy is the rise of external debt in EMEs, although many EMEs were able to decrease the government debt ratio to downward, it might be difficult to gain political achievement for the most of them because the credibility of economic policy is getting less during the crisis than advanced economies. Also, a sudden stop following every expansionary period may cause/lead/pull EMEs (in)to the currency crisis, debt crisis, and even financial crisis. The fact that COVID-19 resulted in a high portfolio outflow of $83.3 billion in March worries some EMEs due to their concerns on low international reserve and increased short term external debt. The IMF underlined the fragility of seven EMEs, Brazil, Colombia, India, Hungary, Turkey, S. Africa, and Egypt, against the sudden stop in the WEO Report revised in April.

This study aimed to investigate what factors are dominated in explaining the exchange rate movements of these countries. Thus, while VIX is found the most significant of the push

factors, specifying a pull factor is more complicated because no single pull factor can explain the fluctuations in all currencies. However, while real growth rate, M2 growth, and external debt to the reserve have an explanatory power on predicting the sudden stop and consequently depreciation, CDS does not seem to be a driving factor. Moreover, it is observed that good economic performance (i.e. GDP growth, relatively high PMI) helps to mitigate the depreciation while the bad indicators accelerate this depreciation in the currency. An unprecedented sudden stop with COVID-19 requires more than a single pull or push factor to accurately predict exchange rate movements in EMEs.

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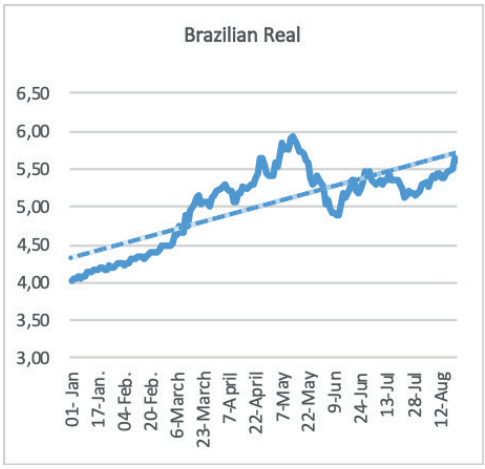
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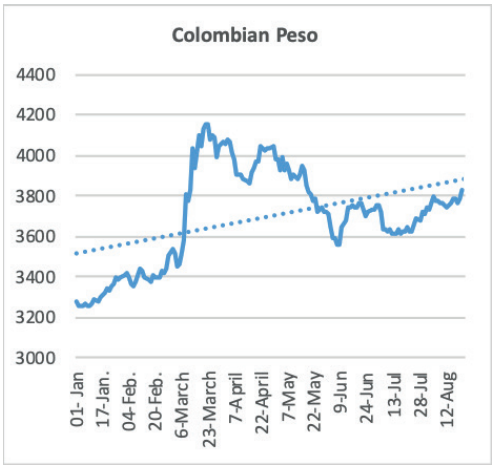
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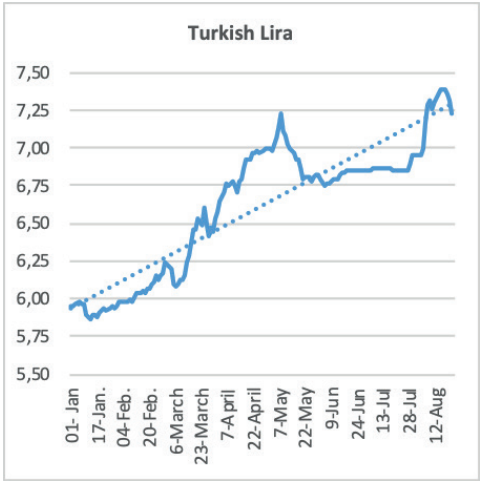
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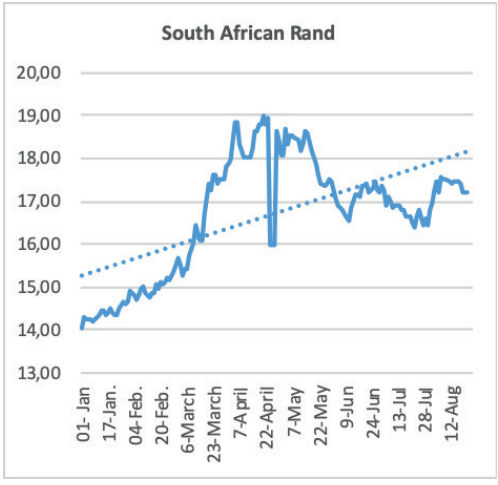
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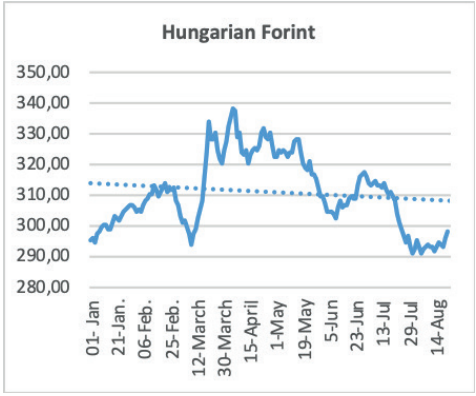
Appendix

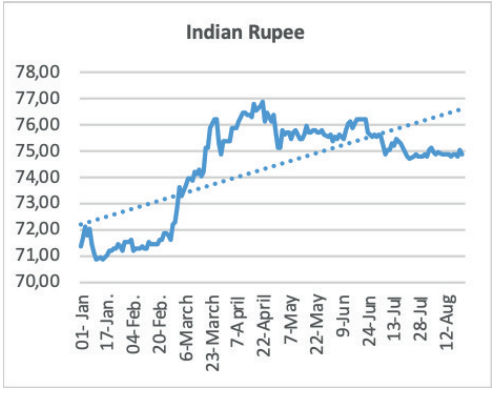

Brazilian Real
6,50
6,00
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4,00
3,50
3,00
01- Jan
17-Jan.
04-Feb.
20-Feb.
6-March
23-March
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22-May
9-Jun
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13-Jul
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12-Aug

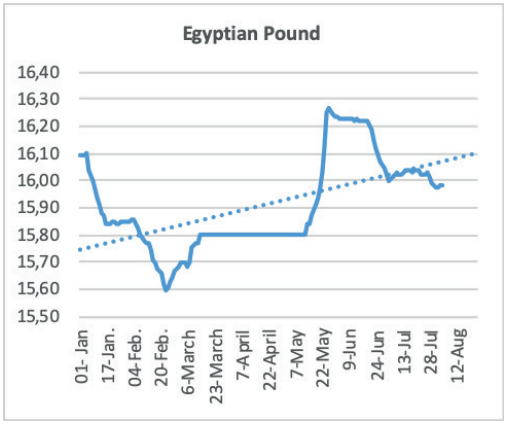

Colombian Peso
4400
4200
4000
3800
3600
3400
3200
3000
01- Jan
17-Jan.
04-Feb.
20-Feb.
6-March
23-March
7-April
22-April
7-May
22-May
9-Jun
24-Jun
13-Jul
28-Jul
12-Aug


Turkish Lira
7,50
7,25
7,00
6,75
6,50
6,25
6,00
5,75
5,50
01- Jan
17-Jan.
04-Feb.
20-Feb.
6-March
23-March
7-April
22-April
7-May
22-May
9-Jun
24-Jun
13-Jul
28-Jul
12-Aug


South African Rand
20,00
19,00
18,00
17,00
16,00
15,00
14,00
13,00
01- Jan
17-Jan.
04-Feb.
20-Feb.
6-March
23-March
7-April
22-April
7-May
22-May
9-Jun
24-Jun
13-Jul
28-Jul
12-Aug


Hungarian Forint
350,00
340,00
330,00
320,00
310,00
300,00
290,00
280,00
01- Jan
21-Jan.
06-Feb.
25-Feb.
12-March
30-March
15-April
1-May
19-May
5-Jun
23-Jun
13-Jul
29-Jul
14-Aug


Indian Rupee
78,00
77,00
76,00
75,00
74,00
73,00
72,00
71,00
70,00
01- Jan
17-Jan.
04-Feb.
20-Feb.
6-March
23-March
7-April
22-April
7-May
22-May
9-Jun
24-Jun
13-Jul
28-Jul
12-Aug


Egyptian Pound
16,40
16,30
16,20
16,10
16,00
15,90
15,80
15,70
15,60
15,50
01- Jan
17-Jan.
04-Feb.
20-Feb.
6-March
23-March
7-April
22-April
7-May
22-May
9-Jun
24-Jun
13-Jul
28-Jul
12-Aug

CHAPTER 1.3.

THE RISK AND UNCERTAINTY AFFECT OF COVID-19 PANDEMIC ON BUSINESS

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Abstract

The WHO (World Health Organization) China Country Office was informed of cases of pneumonia of unknown etiology determined in Wuhan City, Hubei Province of China on December 31, 2019. These viral pneumonia cases have subsequently been defined as coronavirus disease COVID-19. The COVID-19 pandemic is unprecedented for the whole world. The COVID-19 pandemic is a shock for the global economy that has influenced all over the world. This has not only outcomes for the economy; whole communities have been influenced, which has caused significant changes in how businesses act and consumers behave. The COVID-19 pandemic has affected various sectors of society in different ways. Many companies have implemented their business continuity and crisis management action plans in the face of unexpected situations. Throughout the process, companies have had to take radical measures in order to continue their services and not to risk their operations. It is important to look forward and plan ahead for businesses in this process. Long-term effects of this event for businesses are very difficult to predict for now. In this study, the general effects of the COVID-19 pandemic on businesses, business risks during COVID-19 pandemic, supply chain risks of businesses during COVID-19 pandemic, the importance of corporate social responsibility for businesses during the COVID-19 pandemic and possible changes expected in businesses post-COVID-19 pandemic are included. As a result, businesses need to develop new strategies, new practices, different methods and tools to succeed in this process. In order to get out of this process with minimum damage, companies need to create a roadmap and take action in line with their own strategy. At the end of this process, it is expected that digital business models and automation will no longer be among the targets of industrial organizations, but among their obligations.

Keywords: COVID-19, business, risk, uncertainty, supply chain, corporate social responsibility.

1. Introduction

The WHO (World Health Organization) China Country Office was informed of cases of pneumonia of unknown etiology determined in Wuhan City, Hubei Province of China on December 31, 2019 (WHO, 2020). These viral pneumonia cases have subsequently been defined as coronavirus disease COVID-19. The COVID-19 pandemic is unprecedented as a public health phenomenon due to three factors, which are a high level of contagion, significant fatality rate and an absence of any vaccines (Krishnamurthy, 2020: 1). The whole world, regardless of any community or country, is going through a very difficult period due to the COVID-19 pandemic. Moreover, perhaps for the first time in history, everyone is faced with such a strong threat, without realizing any status or level of prosperity (Escarus, 2020: 52). The COVID-19 pandemic has had enormous effects all over the world. Countries have closed their borders, limited the movement of their citizens and restricted citizens in quarantine within their homes for weeks. This is a unique event (Donthu and Gustafsson, 2020: 284).

The COVID-19 pandemic is a shock to the global economy that has influenced businesses all over the world. The effect of COVID-19 on the global economy is likely to be unprecedented since the 1930s Great Depression (Euronews, 2020). This pandemic is unique in terms of its global, economic and political impact (Ritter and Pedersen, 2020: 214). This pandemic has had serious economic outcomes across the world. It not only has had outcomes for the economy; whole communities have been influenced, which has caused significant changes in how businesses act and consumers behave. The COVID-19 pandemic has affected various sectors of society in different ways. People have been losing their jobs at rates not seen since the 1930s Great Depression. The sectors that have seen the largest increases in unemployment are those that require the physical presence of the customer (aviation, tourism, culture-art etc.) (Donthu and Gustafsson, 2020: 284-285).

In times of disasters, pandemics and similar crises that have great effects on the global economy, how operating activities work becomes more important than ever. The fact that millions of people have taken isolation measures and cannot go out of the house due to the pandemic brings along significant changes in business conduct worldwide. Some multinational companies have had to reassess and restructure their complex and critical services run by global operations units. Many companies have implemented remote working models to ensure business continuity and crisis management in the face of unexpected situations such as sudden travel restrictions. Throughout the process, companies have had to take radical measures in order to continue their services and not to risk their operations (Escarus, 2020: 60).

It is very important to look forward and plan ahead for businesses in this process. Long-term effects of this event are very difficult to predict. As such, companies need to better understand how decisions are made during the crisis, which influence post-crisis performance (Ritter and Pedersen, 2020: 222).

McKinsey & Company, a management consultancy company, has made seven basic action suggestions for the business world against the negative effects caused by the corona virus pandemic. The warnings that companies must consider when managing the corona virus process are to protect your employees, build a COVID-19 team, strengthen liquidity management, keep the supply chain in balance, be close to your customers, apply the plan and deepen your social services (Marketing Türkiye, 2020).

In this study, the general effect of the COVID-19 pandemic on businesses, business risks during the COVID-19 pandemic, supply chain risks of businesses during the COVID-19 pandemic, the importance of corporate social responsibility for businesses during the COVID-19 pandemic and possible changes expected in businesses post-COVID-19 pandemic are included.

2. Effect of COVID-19 Pandemic on Businesses

An important impact of the pandemic has been on companies and business life. The COVID-19 pandemic has started to lead to bankruptcy for many well-known brands in many sectors as people stay at home and economies are shut down. The tourism industry has been deeply affected. Airline companies have reduced their workforce. Furthermore, conferences, sporting and cultural events have been called off. General and personal services (hairdressers, gyms and taxis) have also come to a standstill for a while due to lockdowns. However, some of them started to open up two months after their closure (Donthu and Gustafsson, 2020: 285). The pandemic has important impacts for auditing firms too. This process has influenced how audits are conducted and how evidence is gathered, as well as aspects of the reporting process.

Even if a company is not directly affected by the COVID-19 pandemic, the serious impact of a stakeholder at a critical point in the value chain may leave the company in a difficult situation. For this reason, companies need to analyze their value chains well and act in a planned way to prevent unpredictable risks. Financial institutions should also be more careful when assessing new risks. Even if the short-term financial situation of the companies is good, it is always possible that the risks in different areas (breaks in the supply chain, disruption in order delivery, customs restrictions, etc.) created by the pandemic may affect the operations of the company, disrupt cash flow and rapidly worsen the balance sheet. This situation reveals that financial institutions should not only consider the company's own activities, but also the supply chain. Studies show that large organizations with risk management functions are

stronger and more resilient against COVID-19. However, it has been observed that small and underdeveloped companies face the risk of not surviving the crisis (Escarus, 2020: 54).

Cash flow in companies has come to a standstill due to the closure of workplaces, the stopping of production and the slowdown of the economy. This effect is carried along the value chain and creates a trickle-on effect, affecting especially small-scale and local businesses relatively more severely. Large-scale companies may delay their payments to small-scale enterprises in their supply chains due to the problems they experience in cash flow during this crisis period. This situation may cause more serious financial problems for small and medium enterprises (SMEs) that have less flexibility to cope with economic difficulties. In addition to local and small-scale enterprises, it is anticipated that large-scale enterprises in sectors such as tourism and aviation may experience problems in the upcoming period due to cyclical changes and lack of demand in the market. Paying the wages of employees in workplaces where production has stopped or branches have been closed has become the main focus of governments and development finance organizations. Therefore, the primary agenda of the financial world is to develop programs and systems that will provide rapid cash flow for such urgent needs (Escarus, 2020: 105).

The COVID-19 pandemic has caused many companies to close and it has lead to an unprecedented disruption of commerce in most industries. Retailers and most brands have faced many short-term challenges (the supply chain, cash flow, the workforce, consumer demand, marketing and sales). Some countries have supported companies to help them keep the workforce intact (Donthu and Gustafsson, 2020: 284-285). Important ways to manage COVID-19 pandemic for businesses are as follows:

Table 1.3.1. Important Ways to Manage the COVID-19 Pandemic for Businesses

Effective Cash Management	- Organizations that manage their cash effectively by evaluating liquidity requirements, engaging with financing partners to ensure lines of credit remain available, using government financial incentives, and ensuring business continuity.
Early Digitalization Investments	- Companies that have invested in digital transformation before the crisis may use online channels to interact with their customers and they can sell their products and services on different online channels
Prepared for Supply Chain Risks	- These companies have taken into account systems the extended supply networks to better understand their risks. These companies have multi-sourced key strategic components to reduce their reliance on any one supplier.
Flexible Organization	- Flexible organizations are best positioned for the pandemic because these companies use systems instead of manual operations, have an organizational layout that enables remote working and communicating, and have been less affected by tourism limitations and are thus able to continue their operations.

Source: (Deloitte, 2020d: 7)

As can be seen from all these situations, business priorities have now centered around three major themes as cash preservation, customer experience and employee engagement for companies in this process (Emergn, 2020; Mckinsey, 2020a):

- ***Cash Preservation:*** Cash preservation is very important in these types of crises for companies. Cash preservation includes ensuring that a company is well funded and not undercapitalized in a certain field. Companies have to think about how they can be funded differently and examine whether investments will actually ensure the tangible value needed to satisfy customers and employees in both the short and longer term. This situation has been forced onto some companies, where they are having to think about funding new ways of working. At the same time, companies want to maintain long-term investment that will put their companies in a good position in the recovery. Companies don't want to cut back on all their R&D indiscriminately. Therefore, most companies have started to ask questions about how they should spend their money. Firstly, companies need to answers the following questions in this process:
  - Who can manage cash well?
  - How to establish a cash culture that balances urgent short-term needs with longer-term competitive factors?

For these reasons, companies can take into account the following things for cash preservation solutions (Coleman, 2020):

- Companies can contact their bank and ask for an increase in their line of credit.
- Companies can consider renegotiating their loan terms. Companies can contact their lender and ask to defer upcoming coupon payments.
- Companies can stay in close communication with their customers and observe their accounts receivables carefully.
- Companies can think about other sources of liquidity such as short-term lender solutions or sales of under-utilized assets.
- Companies can take advantage of all tax deferral opportunities.

- ***Customer Experience:*** For businesses, making sure that customers keep being served in the way they expect is very important. The customers still have maximum control. With COVID-19, the newly developed behaviors and expectations of customers have increased the need for a new customer-oriented action plan of companies. Companies need to understand which customer trends will continue over the longer term because

companies that adapt to the changing needs of customers will recover more rapidly and be better positioned than competitors in this process. In this period, when the customer experience was redefined, even customers who did not prefer the digital channel before the pandemic have had their channel preferences shifted to digital. So, the obligation to establish a remote working environment has been imposed on some of companies in order to keep their customers long-term. Also, companies have started to give importance to contactless commerce to provide safety across products and services in this process. This situation is very important to put customers at ease and increase their satisfaction too. As can be seen from all these reasons, a company that is able to solve problems now will be even more agile once the urgent crisis lessens (Mckinsey, 2020b; Ercin, 2020: 15).

- ***Employee Engagement:*** With the COVID-19 pandemic the biggest difficulty companies in all sectors are facing is the cultural and behavioral effect of shifting to remote working for employee engagement. Businesses should prioritize the health and happiness of their employees in this process. Since this situation will help increase loyalty in the long term, it will be useful for businesses to consider the following recommendations for employee engagement in this process (Ernst & Young, 2020e):
  - The cost of work equipment that supports facilitating remote work should be covered.
  - Flexible working arrangements should be allowed.
  - Working arrangements should be flexible to the needs of employees to work in different locations due to their family situations.
  - Employees should be motivated to remote working conditions by sending videos to the employees from the leadership team.
  - Communication with employees should be maintained using virtual communication groups.
  - Information technology (IT) support services should be developed to support the remote working order.
  - Leave should be applied to critical employees who need to work in offices or workplaces.
  - “Gift packages” containing snacks, disinfectants, masks should be sent to employees.

Therefore, the decline in the consumption side due to social isolation has created negative pressure on the cash flows of companies operating in many sectors. Given the high uncertainty and risky environment, it may have caused significant changes in the fair value of many assets and liabilities. Issues such as the decrease in economic activity in the tourism, entertainment and production sectors and the increase in input costs in certain sectors in the medium term due to the increasing exchange rate should be reflected in the business plans of the enterprises. While some companies are struggling, some companies are succeeding in this process. This situation is true for Internet-based businesses (online shopping, food delivery, online education, online entertainment etc.). In terms of income approach, the situations that businesses can consider in their business plans are as follows (Donthu and Gustafsson, 2020: 285; KPMG, 2020: 3):

- In this process, cash flow forecasts, current demand delays, low economic activity levels and possible reductions in operational expenses should be taken into account.
- The deterioration in net working capital structures caused by the inability to dissolve stocks due to low sales levels, the extension of the maturity of receivables and the collection risks should be taken into account.
- Due to the negative impact of collection risks and prolonged maturities on the cash flows of companies, measures, such as delaying investment plans for short-term, should be reflected in business plans.
- Considering that an increase in uncertainties will reduce the appetite of banks and other financing sources for funding, it is important to correctly determine the fund needs of companies operating with high indebtedness in their business plans.
- Considering the open positions of companies, the effects of high exchange rates and exchange rate volatility on companies should be accurately predicted and the business plans of companies with high import dependency should be prepared to reflect these risks.
- The negative pressure of low economic activity on profitability levels should be taken into account in the short and medium term.
- It should be taken into account that the sensitivity of the assumptions based on the income approach and the importance of scenario analysis have increased significantly in the studies carried out in such periods.
- While preparing recovery scenarios after the COVID-19 global pandemic, whether the negative effects of this process will have a permanent effect should be analyzed correctly by considering the value chains of the companies, customers and product diversity.

In this process, businesses should also evaluate and significantly benefit from the following financing incentives in combating COVID-19 (Deloitte, 2020c; KAP, 2020; KOSGEB, 2020; TOBB, 2020):

- Check loans provided by the government,
- Credit Guarantee Fund (KGF) loans,
- Force majeure applications in case of default,
- Postponement of bank loan principals and interest repayments,
- Tax incentives,
- 3 months' salary loans,
- Syndicated loans provided by Ziraat Bank,
- SME Loan Interest Support provided by Small and Medium Enterprises Development and Support Administration (KOSGEB),
- Continuing Work Credit Support,
- Open Credit Support Packages,
- Check Payment Support Packages,
- Within the scope of the Economic Stability Shield provided by Halk Bank for tradesmen and craftsmen, the "Tradesmen Support Package", Business Loan and Paraf Tradesmen Card products,
- Turkish Employment Agency (İŞKUR) Supports (Short Work Allowance),
- Union of Chambers and Commodity Exchanges of Turkey (TOBB) in which members of the SMEs have access to finance for SMEs as they are known to contribute to the elimination of problems experienced with financing "TOBB Nefes Loan".

3. Business Risks During COVID-19 Pandemic

Companies face various risks in uncertain times. Risk is usually assumed to be the same as uncertainty although there is a significant difference between risk and uncertainty. To take a company successfully through risks and uncertainty, the leader of the business must be very cautious, observant, perceptive, proactive, and flexible. The main challenge facing leaders of business is how to make strategic decisions, given the uncertainty of the future. Uncertainty always involves risk and managing risk as a managerial tool has gained importance in the recent past. Businesses need a proactive risk management strategy, which can peek into the future and present various scenarios that can be developed for every scenario. It is necessary for business leaders to create crisis scenarios for different risk situations and to carefully determine the effects of the measures to be taken in the short and medium term on the competition. It is very important to evaluate enterprise risk and opportunity in relation to both

the stress of the situation of today and the different ways sectors work in this process. Positions of companies might be redesigned due to COVID-19. It is important to evaluate liquidity, balance sheet strength, and financial forecasts through a scenario lens, while using scenarios to influence thinking about merger and acquisition (M&A) opportunities and other offensive strategies in this process (Deloitte, 2020a).

The world of business is being profoundly affected by the pandemic. The concern created by COVID-19 continues around the world and businesses are being seriously affected by this situation. Although international measures have been taken, it is known that businesses will face significant difficulties in how to intervene in such a crisis, as it has not been experienced in the form of a pandemic before (PWC, 2020). COVID-19 is impacting on various areas including employees, supply chains and operations for businesses. It is also one of the issues to be remembered that the pandemic triggers many types of risks by creating domino effects for companies. In the COVID-19 process, businesses may face the following risks (Oğur, 2020):

Table 1.3.2. Risks Arising for Businesses in the COVID-19 Process

Strategic Risks	- Risks arising from failure to implement projects. - Risks arising from customer losses. - Management change risks. - Advantage risks (innovation) that competitors will catch by changing their working model. - Recession risks posed by COVID-19.
Managerial Risks	- Since crisis processes can also appear as opportunities for managers, taking managerial risks can also be beneficial for the development dynamics of businesses in these periods.
Operational Risks	- Due to operational risks arising as a result of information technology (IT) infrastructure, human error, administrative failure, external events or the slowdown of the services provided by the institution, radical changes in this period in order to shrink by anxiety will cause the services provided by businesses to deteriorate after the crisis.
Financial Risks	- A deterioration in investment risk, market risk, liquidity risk and credit risk will adversely affect all interconnected businesses in the global world economy. - In this period, states implement some legal regulations to reduce the impacts of the crisis on businesses.
Human Resources Risks	- During the pandemic period, when legal regulations regarding human resources are not set up correctly, it may cause serious problems for businesses.
Legal Risks	- The legal regulations issued after March 2020 should be followed in order not to face legal problems during the pandemic period for businesses.
Brand / Reputation Management Risks	- Some businesses may face the process of losing brand value during the pandemic period.
Reporting Risks	- Reporting that does not comply with the legislation and standards during the pandemic period may cause irreparable problems in businesses after the crisis.

Source: (Oğur, 2020)

As can be seen from the risks that may arise for businesses, the COVID-19 pandemic creates an environment of uncertainty for businesses. The fact that most of the enterprises have global operations and production centers in China also causes businesses in other countries to be negatively affected by this process. The decline in intermediate goods exports from China negatively affects the production capacity of many enterprises in the world (Ernst & Young, 2020b). Thus, the COVID-19 pandemic has a negative effect on the profitability and profit margins of businesses. The business continuity of pandemic businesses and the long-term applicability of this continuity plan pose major problems. It is among the urgent needs of businesses to evaluate the specific impacts of businesses in this process and how to respond to them (Ernst & Young, 2020c; Ernst & Young, 2020d).

For many sectors, both the supply chain has been interrupted and customer demand has shrunk at the same time. Moreover, this bilateral pressure differs not only from sector to sector, but also from country to country, and even from region to region within a country. With COVID 19, the main issue for businesses now is the question of risk management and how loss should be distributed. In some countries, factories have been closed directly, and the distributors have failed to sell due to the contraction in demand and supply shortage, and the idle capacity and operating costs that the mentioned enterprises have to bear continue (Solyalı, 2020). Therefore, it is very important to carry out a risk mapping in which all functions within the company contribute together and act without forgetting that the risks are not independent from each other. Risks are the product of uncertainties and mean factors that can adversely affect an organization's activities. However, it is known that some uncertainties can have positive results and every crisis has an opportunity potential. Advanced risk management goals can also offer new opportunity areas to companies as it gives the opportunity to evaluate together by revealing their domain and risk appetites (Escarus, 2020: 55).

Six risk management steps to move rapidly, stay focused and keep businesses running during and beyond the COVID-19 pandemic are as follow (Ernst & Young, 2020a):

1. Set up a crisis management task force
2. Identify current and emerging risks
3. Prioritize risks based on impact and likelihood
4. Deciding on risk mitigation and the right course of action
5. Plan, monitor, act, evaluate – Repeat
6. Keep track of your organization

The increased economic risk and uncertainty may have important financial reporting implications. Survival of companies with weak balance sheets is at risk in this process. Companies with high debt will be the most to suffer because of COVID-19. The level of uncertainty about the future economic outlook reveals an important challenge when making forecasts and evaluating a company's ability to continue as an ongoing concern. In the light of COVID-19, businesses come across various challenges in a complex and fast-changing environment. Companies must accomplish the financial and operational difficulties of coronavirus to quickly handle the needs of their people, customers and suppliers.

It is important to balance risk management processes and solutions with efficiency and benefit. Excessive risk management programs can make a cumbersome burden for businesses during the normalization period. Problems on the demand or supply side that reduce product flows also reduce cash and receivable flows for many companies. Very few companies will be as financially strong as before the pandemic with the normalization process. A cash strategy is as important as during a crisis for the normalization process. Suppliers and customers can demand flexibility. This situation may lead to the extension of the terms of receivables (or decrease in the amounts) or the shortening of the debt terms. Unfortunately, most companies will not be able to successfully exit this crisis period. It is important to manage the entire supply chain well because over time a customer's customers or supplier's suppliers may no longer exist. It should be ensured that appropriate financing is available to support growth expectations during the normalization period. A tactical plan has not yet been proven for the COVID-19 pandemic. Businesses must address pre-crisis vulnerabilities, devise resilient strategies and be prepared to respond according to defined scenarios should the crisis reappear or exacerbate (Deloitte, 2020b: 7-8).

As a result, business interruptions due to global pandemics differ from other risks depending on their source. Since it is uncertain when the pandemic will end, businesses need to go beyond existing management philosophies and plans in order to manage this negative situation. Businesses need to incorporate "Pandemic Planning" issues into their existing governance activities to ensure continuity for their critical products and services. In the face of these situations, businesses need competencies (management policies and procedures, employee communication, teleworking and technological infrastructure support, etc.) specific to the pandemic period to minimize business interruptions and ensure the continuity and effectiveness of the organization (Ernst&Young, 2020a). Recommendations for Preparedness for the Pandemic and Developing a Pandemic Strategy are as follows (Escarus, 2020: 57):

- Establishing a Fighting the Pandemic and Coordination Team
- Risk Analysis and Stakeholder Engagement Plan Preparation
- Raising Awareness and Organizing Awareness Activities
- Creating and Implementing a Fighting the Pandemic Plan

4. Supply Chain Risks of Businesses During COVID-19 Pandemic

With the pandemic, it has been observed that the supply chains for businesses were first disrupted, the production of goods or intermediate production stopped, and as a result, imbalances occurred on the supply side. Measures such as quarantine etc., which have started to be taken within the scope of combating the pandemic, drive small businesses to bankruptcy and a serious demand problem has begun to occur in the economy as unemployment increases (ILO, 2020).

The coronavirus pandemic has had an important effect on the supply chain of all manufacturers, retailers and wholesalers. Most companies have been tackling to keep a constant flow of required goods and services in this process. The supply chain has been facing various difficulties whether it is frozen foods and market items or ventilators and masks or even services. It is very significant to determine strategies to overcome such an outbreak for companies with complex supply chains. Companies need to asses their supply chain strategies, designs and dependencies to avoid unforeseen disruptions (Sharma et al., 2020: 443-444).

It is estimated that after the pandemic, companies will turn towards maintaining balance in their supply chain. At this stage, creating strategies in the light of different scenario analyses, as well as making long-term agreements for demand management, sales distribution and after-sales services are prominent topics. At this point, the most important step that can be taken by businesses is to prioritize concepts such as risk management, insurance, performance indicators and early warning systems at a higher level in the business model (Escarus, 2020: 30).

Unexpected disruption of consumer demand (such as panic buying of toilet tissue and pasta) has lead to negative effects on supply chain performance (Ivanov, 2020). COVID-19 precautions have seriously influenced the everyday life of consumers and businesses and presented retailers with unprecedented challenges. As a consequence of the phenomenal precautions, consumers have started to shop in different ways like online. Many retailers have had to start new types of online services and home delivery implementation with this process. In addition to this implementation, many online grocery stores have ensured

priority delivery for elderly customers. Some retailers have hired staff from other companies to help meet sudden increases in demand for online services in sectors like groceries markets for now. While most retailers have redesigned their supply chain foreseeing breakdowns, some of them have been doing so by decreasing advertising expenditures and increasing prices. Some retailers have started to use a local-only supply chain. Retailers have started contactless payments. While home delivery required a signature before the COVID-19 pandemic, now it consists of leaving the packages in front of the door without further contact with consumers. Retailers should focus on the following primary fields to operate the unprecedented demand and pressure brought about by the COVID-19 pandemic (Pantano et al., 2020: 210-212):

- Rethinking agile retailing
- A new role for retailers in society
- Putting consumers at the core
- Digital communication

Leading the normalization process of a company in this period of uncertainty and concerns about the health of employees is a difficult task. In addition, it will not be easy to return to the old days of complex global supply chains that have suffered from distortions in both demand and supply. In order for companies to plan the recovery period and to implement this plan properly, it is necessary to focus on the supply chain on a large scale, and to focus on unprecedented cooperation and external coordination among internal units. The transformation that companies will perform at the point of response and improvement covers the entire management dimension of the crisis (risk and financial management, employees, customers and supply chain). Technology will play a key role in ensuring cooperation and coordination. Systems and data that will support leaders in planning and executing their actions will help keep the business safe and stable (Deloitte, 2020b: 6).

Disrupted supply-chains have caused companies to experience challenging cash flow and working capital issues because of liquidity shortage, delays in payment terms, difficulties in cost control and changing credit terms. The supply chain has needed to make an important switch in perspective. For this reason, companies can take into account the following strategies (Sharma et al., 2020: 448-449):

- Companies need to reassess sourcing strategies. Companies can shape their supply chain in such a way that they can balance risk and operational flexibility and manage supply chain disruptions.

- Companies need to integrate advanced technologies (artificial intelligence and deep learning-based tools) in the supply chain. These tools can help in reducing unexpected impacts of any unusual events like the Covid-19 pandemic.
- Companies need to evaluate security gaps in the supply chain closely. One of the ways to evaluate such security gaps is to improve scenario-based supply chain models. Companies can use simulation to knock out every possible negative impact. This implementation will help companies to not only evaluate security gaps but also reduce risk and continue the business.
- Many companies have had to lay off their employees during this time due to changes in business practices and profit patterns. Such lay-offs may affect the whole value chain of the company. This situation needs proper scenario planning, resource optimization and efficiency management for companies.
- Companies need to cooperate with multiple stakeholders and be more strategic in their approach to supply chain management. Without a culture of cooperation, improving supply chain strategy may not be possible for a company.

Therefore, it is important for whole companies to have a confident supply chain that does not break. The COVID-19 pandemic will make businesses redesign their supply chains and probably move supply chains closer to where they are needed in order to avoid stopping production in the future. Businesses need to use virtual forms of recruitment, training and socialization in lieu of face-to-face interactions in this process (Donthu and Gustafsson, 2020: 286).

5. Importance of Corporate Social Responsibility for Businesses During the COVID-19 Pandemic

The sensitivity of businesses to sustainability has also increased with the COVID-19 pandemic. It is a widely accepted phenomenon in scientific circles that ecological destruction, environmental degradation and climate change can accelerate both the emergence and spread of such epidemics. Therefore, business models are now expected to take into account not only financial risks but also environmental and social risks. It is predicted that companies will focus more on sustainability aspects such as social responsibility and carbon management in this process (Escarus, 2020: 31).

Companies have acted by focusing on the benefits of their shareholders for many years. However, increasing social sensitivity, sustainability and social responsibility concepts have entered the center of life in the current period. As a reflection of this, the perspective of the

business world on business processes is gradually changing and corporate social responsibility (CSR) activities have started to gain importance. Undoubtedly, this pandemic will offer very important opportunities to those with a more careful approach to CSR. Corporate social responsibility, which is defined by the European Union as "the concept which is voluntarily integrated by the companies into their social and environmental operations and their interaction with their stakeholders", is a developing concept. This concept is basically an answer given by the business world against the unconscious increasing day by day of the negative effects created on the environment and the society by the corporate stakeholders, the customers and shareholders being in the first place and by corporate activities. When directly incorporated into the corporate strategy, corporate social responsibility reduces such negative effects and ensures that commercial activities are efficient, fair and sustainable in an environment of confidence (Cozannet, Rieper and Yekbun, 2007: 9).

In this process, the operating mentality of many companies has shifted from "shareholder priority" to "stakeholder priority". As the concept of "stakeholder", which includes many groups such as employees and customers, has become central in the strategies of the companies, the sensitivity levels of the company management against all kinds of events that affect the stakeholders have increased and CSR activities have gained momentum. The importance of the elements integrated into business manners and company strategies within the scope of CSR in pandemic processes has been well understood recently. It has been observed that companies that pay maximum attention to the health and safety of their employees and give them the necessary flexibility within the scope of CSR processes maintain their stance during the pandemic process, and employees continue their work more comfortably with this confidence (Escarus, 2020: 88-89).

An established CSR culture not only positively affects the continuity of the company's operations and success during the pandemic process, but also positively affects the society in which the company operates. Institutions that are familiar with activities such as social aid campaigns, solidarity organizations and donations, do not have difficulty in creating their share of social benefit during the pandemic process (Prowly, 2020). CSR includes various activities of the enterprises such as including different social features in their products and services, adopting advanced human resources management practices, showing a high level of environmental performance and contributing to purposes of various institutions by carrying on business in the society (Kaplan, 2013, 83). For instance, manufacturing companies have switched their factories to produce ventilators, personal protective equipment and hand sanitizer etc. And some of them have been donating instead of selling of these products.

Therefore, the COVID-19 pandemic offers important opportunities for companies to actively hold with their CSR strategies and agendas (He and Harris, 2020: 177).

Therefore, a prerequisite comes to the fore in order to see the positive effect created by CSR during the pandemic process. CSR should be integrated with the operation of the company. Institutions that have been able to integrate CSR with areas such as accounting, finance, human resources, marketing, sales and strategy can achieve noticeable success during the pandemic. This situation clearly reveals the importance of CSR for all companies (Aguinis, 2020).

6. Possible Changes Expected in Businesses Post-COVID-19 Pandemic

The COVID-19 pandemic will prompt many companies to reassess their operations and rethink entire business models. Companies are realizing that they are able to support customers and operate efficiently with staff working remotely. This will certainly have long-term outcomes for businesses and employees alike (Emergn, 2020). In this process, support in Research and Development (R&D) needs to be increased. The whole world needs to focus more on cooperation. All global and regional procurement networks need to be reviewed to focus on greater cooperation. In order to keep the economy strong, it is necessary to focus on the long term rather than the short term. Quality, ethics, price, sustainability and timing are among the most important issues for businesses in this process. With the COVID-19 pandemic, it has been seen that the existing business processes are also radically changed. International relations, organizations and supply networks have also been seriously affected. In this process, globalization is expected to evolve into regionalization. During this period, countries can implement regional strategies on critical services and raw materials. It is estimated that regionalization will increase with the continuation of globalization. In the new world, businesses are expected to make their existing infrastructure investments equipped with "smart" modules and high technology. With smart infrastructures, solutions that protect the environment, reduce our carbon footprint, save serious costs and make life easier will be provided. These will increase the added value of the economy (Sert, 2020).

Many countries will seek to create a national supply chain in some industries, based on the breakouts in the global value chain. In particular, a search will emerge to meet various critical components through domestic supply. The importance of technology will gradually increase in order to adapt rapidly to developing conditions for businesses. Concepts such as Industry 4.0, dark factories and the Internet of Things (IoT) will be discussed more. Accelerated R&D and innovation activities will touch many areas from healthcare services

to production, office automation systems to smart city designs. Business models in which environmental and social risks are taken into consideration as well as financial risks will come to the fore. Attitudes that stand out during the pandemic will become permanent, such as working remotely, flexible work, reducing business travel and increasing susceptibility to sustainability. The distance education model, which is popular with the pandemic, will continue to be applied increasingly and widely. Considering that pandemics trigger many types of risks by creating a domino effect for businesses, it will be necessary to carry out a risk mapping in which all functions within the company contribute together and the risks are not considered independently from each other. In addition, it is estimated that businesses that implement advanced risk management will gain benefits such as ease of access to finance, increased brand reputation and employee loyalty (Escarus, 2020).

The COVID-19 pandemic entered our world as a crisis like no other on a global scale. The COVID-19 pandemic has had a wide-ranging impact on all industries. For the recovery process, all institutions need to manage normalization by ensuring unprecedented coordination and cooperation. Although a proven methodology for the COVID-19 crisis has not yet been identified, as seen in Table 1.3.3, it is predicted that a typical crisis process will go through three time phases (Deloitte, 2020b: 1-3):

- Understand and Respond (The process of companies trying to understand the impacts of the current crisis and respond with various scenarios),
- Improve (The process of developing action plans from companies' experience),
- Develop (The process of companies getting ready for the "next normal" to shape this "normal").

Table 1.3.3. Three Phases for Businesses

	Understand and Respond (1-12 weeks)	Improve (12-36 weeks)	Develop (36+ weeks)
Aim	- Understanding risks and responding quickly	Improvement by learning	Developing the new normal
Basic Activities	- Taking cash saving and improvement actions as well as cost saving measures - Understanding the impact of contractual obligations on customers, suppliers and employees - Analyzing customers and profitability of products for determining priorities - Developing inventory strategies by determining sudden fluctuations in demand and supply side	- Ensuring that internal audit resources focus on risk processes - Focus on profitable consumer segments and improve distance selling/customer service capabilities - Synchronous cooperation with customers and suppliers - Following and implementing new incentives and aid packages to protect assets and investments	- Refocusing on the value chain by identifying significant changes in demand and supply dynamics - Relocating the company by identifying major disruptions in the value chain - Consider investing in digital solutions to increase the agility and flexibility of the supply chain operation - Redesigning the operating model with an emphasis on agile workforce management to strengthen operational efficiency and agility
Decision Moments	- When to apply for state incentives? - Should any customer and/or product line should be closed?	- Which sales and marketing channels should be used to maximize return on investment? - Do they need low cost debt financing? - Can it extract underperformers from non-core assets? - What digital capabilities and assets can help to recover faster?	- What should be done differently for the development of the business in the post-pandemic normalization process? - How can value be created for customers in the new normalization process? - What capabilities, partnerships, segments, ecosystems and workforce strategies are needed?

Source: (Deloitte, 2020b: 3)

Benefiting from digital technologies and providing dynamic and integrated planning will accelerate companies. It is vital to proactively determine potential restrictions in every field of the supply chain. These constraints include the availability of production or labor, raw material or production opportunities. It is important to manage constraints well, to understand their impact on financial performance, and to prepare a plan so that opportunities that arise are not lost. As the constraints change, some adjustments are made in the business plan to ensure that the plan remains in line with the financial plan and progresses within a framework that will ensure continuous profitability and cash flow (Deloitte, 2020b: 13).

Robotic technologies are among the areas where technological change is expected to occur most in the post-pandemic period. Robots have transformed some industries technologically by taking the responsibility of blue-collar workers in many developed sectors. With the integration of decision support software and artificial intelligence applications into existing systems, this transformation has started to affect white-collar employees. After the

pandemic, it is estimated that robots and artificial intelligence solutions will appear more, especially in pharmacy, personal banking, retail, etc. Online sales and payment channels are expected to remain important after the pandemic. With the initiation of investments in the field of online sales, preparations for logistics and stock management and applying long-term planning according to need are among the important issues of the upcoming period. In the post-pandemic period, companies may have to update their demand plans, optimize their supply networks and identify new suppliers. The demand in the pandemic situation may differ from the demand after the pandemic, and even if the market entry barriers are low, new players will be able to take the stage (Escarus, 2020: 22-30).

7. Conclusion

The COVID-19 pandemic entered our world as a crisis like no other on a global scale. It is not wrong to say that a transformation will occur for whole businesses due to the COVID-19 pandemic. However, it is too early to predict how industries will change and how long these changes will continue. The pandemic has triggered many types of risk (occupational health and safety, community health and safety, reputation, corruption, supply chain risks and cyber risks) by creating a domino effect for companies. Therefore, it is very important to make a risk mapping where all functions within the company contribute together and to act without forgetting that the risks are not independent from each other.

In order to get out of this process with minimum damage or to evaluate the opportunities that may arise, companies need to create a roadmap and take action in line with their own strategy. For investors and lenders, it will be more attractive to do business with companies that are aware of their risks and put forward a strategy to manage these risks. Therefore, while the direct benefits of advanced risk management to companies are reduced risks and increased financial performance; indirect benefits will be easier access to finance, increased brand reputation and employee engagement.

Businesses need to develop new strategies, new practices, different methods and tools to succeed in this process. At the end of this process, it is expected that digital business models and automation will no longer be among the targets of industrial organizations, but among their obligations. Technological and industrial developments play a very important role in achieving environmental, economic and social sustainability goals of businesses. In the medium and long-term future, many businesses are expected to quickly adopt Industry 4.0 operating models.

Also, in supply chains that are re-evaluated and restructured, it will be the most effective indicator of preparation not only for the new normal after COVID-19, but for all uncertainties.

With COVID-19, many things from business models to the education system, from techno-cultural framework to consumption patterns will evolve into a new routine. Remote access meetings, flexible working models and retail e-commerce models have been rapidly adopted almost everywhere they have been implemented. In this context, it is estimated that businesses giving importance to digitalization will be permanent.

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CHAPTER 1.4.

UNCERTAINTY IN TOURISM AND DEGLOBALIZATION CAUSED BY COVID-19: RECONSTRUCTING THE INDUSTRY WITH OPPORTUNITIES

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Abstract

COVID-19 pandemic can be claimed as a disaster causing uncertainty worldwide in a hyper connected globalized world. COVID-19 created great risks with its unpredictable effects on economies and global tourism industry. It is widely accepted that global economy and tourism will never be the same as before. However, COVID-19 crisis also triggers questioning existing systems and leads to reconsider new tourism approaches. Although tourism is seen resilient to such crises, an evolution is expected in the long term. As globalization concept evolves in a more digital world, it is also criticized and deglobalization starts to get more attention (even temporarily) to re-boost local economies. Tourism systems also need to evaluate in these paradigms to keep up with the global trends. Turkey having lots of tourism sources is considered to have great potential to be one of the pioneering countries to reconstruct tourism within a sustainable way. This is seen as a significant opportunity to support rebalancing other sectors and economy in the country. The purpose of this study is to highlight the relationship among tourism, deglobalization and COVID-19. By doing so, it is suggested that while shaping emerging discussions about uncertainty, reconstructing tourism in a sustainable manner in the deglobalization process should not be ignored.

Keywords: COVID-19 Pandemic, Tourism Industry, Globalization, Deglobalization, Reconstruction.

1. Introduction

The role of uncertainty, in shaping economic decisions, is crucial. In the globalized economy of today, uncertainty in some parts of the world, effects the economic decision making of the other parts of the world (Ghosh, 2020). Therefore, the COVID-19 pandemic is a systematic shock that affects all countries, sectors, and companies equally (Felbermayr & Görg, 2020). The real economic and social impacts of the pandemic are clear and raising as countries initiate to take control of the virus and mitigate the spread of the disease (Sobieralski, 2020). The economic deterioration because of the uncertainty and COVID-19 is clearly being exposed by general disruption of global supply chains and increased financial market volatility (Evelina et al., 2020).

The fear of the COVID-19 pandemic caused an enormous vortex of uncertainty (Uzuner et al., 2020). Now people become more suspicious and they are not willing to contact anything that is strange or foreign. This is because the COVID-19 virus is a new, unfamiliar and invisible threat (Balog-Way & McComas, 2020). So far, no vaccine is accessible for this disease (Ruiz Estrada & Khan, 2020) and it is unclear when the pandemic will end (Grimwood, 2020). Until that time, the future is very much unpredictable and presents a very bleak economic outlook (Bas & Sivaprasad, 2020).

The results of the COVID-19 fear, caused a quarantine economy that influences the psychology of tourists negatively and this effect has extended to the tourism and travel industries immediately (Uzuner et al., 2020). Due to uncertainty, the holiday plans of tourists got impacted because of the postponement or cancellation (Ghosh, 2020). The importance of these effects is extremely related to the presumptions made about the duration of travel restraints, restriction measures and their possible impacts on capital, labor or demand of the consumer for goods and services (de Morel et al., 2020). For COVID-19, no-one knows what will happen, but apparently, there will be some socioeconomic changes, and these changes will have a very important impact on tourism such as transformation in movements, socialization and expenditure motivation, work and leisure systems, and many other factors (Romagosa, 2020).

There are basically two kinds of responses to uncertainty. The first one is recognizing its existence, depth and complexity but becoming paralyzed by it. The second one is brashness in the face of uncertainty. In both ways, decision makers in industries and businesses should identify the most salient uncertainty for them, use it to envision multiple different futures, use scenarios and evaluate the decisions for each of them. They also need to make an effort to

answer a couple of questions such as; how will a country's role be in global chains, trade, industries? and what will be the nature of recovery and which opportunities can be captured? (Deloitte, 2020a).

From the time COVID-19 had been announced as a pandemic and lockdowns started, no one forecasted what was going to happen to the world economy and trade. Multiple crises have emerged by suddenly facing deglobalization in a very globalized world. Some of the service industries such as tourism and travel were hit the hardest. Because, these industries are fostered by globalization in many ways. The mobility of people, goods and capital are crucial for producing tourism services.

During the pandemic, economies which realize opportunities are considered to survive and develop in the future. Even industries noticing these is thought to take advantage of recovering first. Tourism can be one of them if decision makers adapt it to new world trends. Sustainability is a concept no one can ignore particularly in tourism. Reconstructing tourism by taking sustainability and local community into consideration is not seen as impossible.

2. Visible Impacts of COVID-19 on Global Tourism

Impacts of the COVID-19 has not been limited to its pace of spread and mortality rate. Due to the unavailability of a vaccine and having limited medical treatment, countries have been obliged to nonpharmaceutical interventions such as lockdown, social distancing, closure of schools, businesses, postponing events including international and mega events and conferences have had a huge impact on the economy and particularly on tourism (Gössling et. al. 2020). As a result, a multiple global crisis having irrevocably impacts on travel and the tourism industry has been triggered.

According to UNWTO COVID-19 Related Travel Restrictions Report (published on 28 April), many destinations have had international travel restrictions which have not been witnessed before in the history of modern tourism. In total, 107 destinations closed their borders or suspended flights in April when COVID-19 was announced as a pandemic and cases began climbing up rapidly worldwide. Some of these destinations implemented a different approach by prohibiting the entry of passengers from certain countries of origin and the remaining destinations have been applying some other preventions on arrivals such as quarantine for 14 days (UNWTO, 2020a).

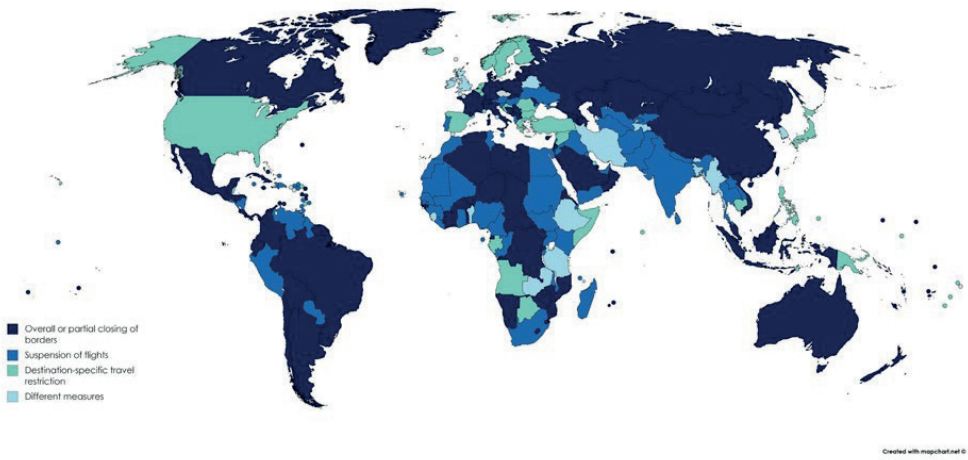


Figure 1: The map of travel restrictions in destinations
Source: (UNWTO, 2020a).

National and international restrictions have caused both on the supply and demand side, shocks on the tourism industry. Besides facing the evaporation of the tourist demand, the tourism industry has tried to cope with the issues on the supply side, such as, reduction on labor and disruption in the supply chain (Del Rio-Chanona, 2020). Almost all of the tourism service providers have faced challenges emerged with the demand and supply shocks.

Tourism industry basically consists of food and beverage, accommodation, travel agency and tour operator, recreation and transportation businesses. COVID-19 impacts each of these types of businesses which have been emerging in different sizes and amounts. For instance, it can be said that food and beverage businesses are affected differently from accommodation businesses. Furthermore, COVID-19 pandemic's impacts on a local small accommodation business may also be different compared to a large and international one. According to a research conducted by Deloitte in Turkey, two of the reasons of these differences of impacts are seen as, digital adaptability and estimated recovery time of the business types. In other words, for instance the accommodation sector is illustrated as one of the sectors which has the lowest estimated recovery and negative digital interactivity change while food and beverage has higher estimated recovery time and better digital interactivity change (Deloitte, 2020b). Therefore, the tourism industry is affected overall with different severity in different business types.

Early research about the pandemic indicates that the most affected sectors are food and beverage and accommodation with a percentage of 95% (Barrot et. al., 2020). Hotels all

around the world occupation rates decreased as low as 10% (Cobanoglu & Dogan, 2020). Airbnb, as one of the examples of a sharing economy, has announced 25% of its company's employees have been asked to leave their job due to the crisis.

Tourism activities and motivations have also been reconsidered. Meetings and conventions have been cancelled during the pandemic. Some of them have been arranged online while others are postponed until the end of the pandemic which is unpredictable. Tourism activities such as camping, health-related etc. are getting more attention. COVID-19 is seen as a starter of a big transformation of tourism motivations.

Almost all businesses in the tourism supply chain have been subjected to shock caused by the COVID-19 lockdown. In addition, tourism requires approximately 53 different inputs from various sectors out of 100 to be able to produce a service (TUYED, 2014). Tourism has a great contribution to the economy not only by means of tourist receipts but also its multiplier effect to other sectors. This contribution ranges from agriculture, textile to creative industries. Those industries and outsourcing firms offering service to the tourism industry are the ones most affected during the COVID-19 pandemic, due to the restrictions for travelling and lockdown (UN ECLAC, 2020). For instance, according to food sector managers, due to the size of their turnover in the hotel businesses, the biggest risk for the food sector is hotel businesses' incapability of recovery in the short term (Bloomberg HT, 2020). As a result, since the tourism industry has a great number of collaborating firms, a domino effect of economic instability caused by COVID-19 is seen very likely to happen.

Statistics in the period of January-May show severity of the impacts and it is illustrated below. International tourist arrivals had shown a positive trend until the beginning of 2020. As COVID-19 was announced as a pandemic and lockdown started, international tourist arrivals were observed to decrease as much as 60% until May 2020 compared to the same period of 2019.

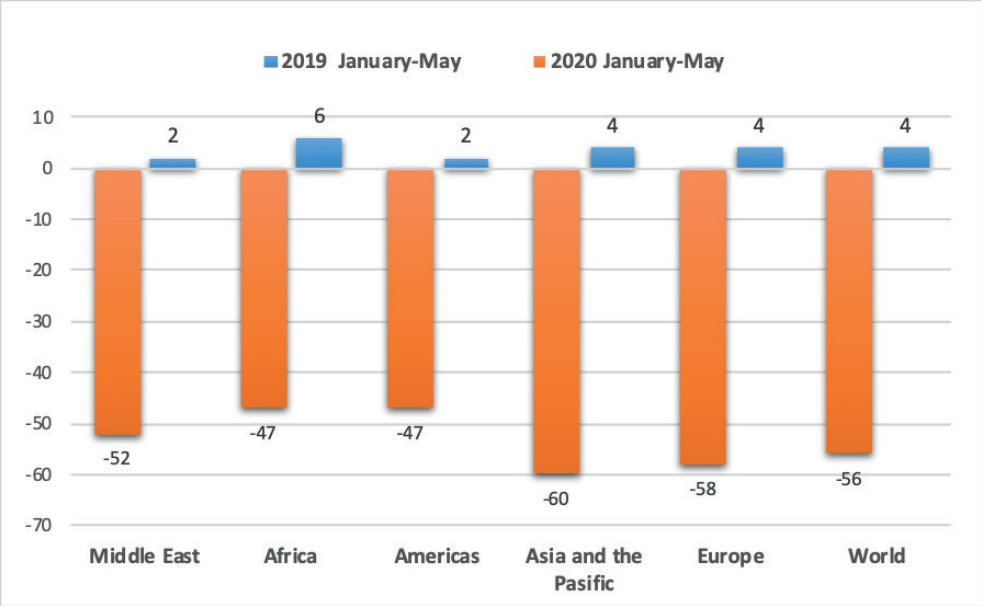


Figure 2: Change of International Tourist Arrivals for the year 2020 compared to 2019 (%).
Source: (UNWTO, 2020b).

Although 22% of the destinations worldwide had started to mitigate restrictions by June 2020, most of the destinations' borders remained closed to international tourism until late August. For instance, some of the destinations in Europe opened their borders for essential travel from specific countries. However, these travels were mostly observed as domestic or interregional (UNWTO, 2020b). It can be said that a large amount of countries continues to implement certain restrictions unless a vaccine becomes available.

3. Future Scenarios and Forecasts in Tourism

Numerous estimates are made by various organizations regarding the impacts of the COVID-19 pandemic on the tourism sector. It is still not clear how the pandemic will develop and how travel restrictions and massive job losses will impact tourist demand until the end of the year. Even so, COVID-19 is not an ordinary shock for global tourism and since the massive expansion of international tourism began in the 1950s there has not been a similar crisis (Gössling et al, 2020). This shock to tourism, transportation services, and domestic activities will not be recovered immediately (Mann, 2020). Continuing uncertainty of the COVID-19 pandemic raises many questions related to the tourism sector. These are (Hall et al., 2020):

- Will pandemic corroborate nationalism and tighten borders even in the longer-term;
- The role of domestic tourism in the reconstruction of the sector
- The longer-term transformation to more resilient destinations
- The behavioral demand responses of tourists in the short- and longer-term, including business travel and widespread adoption of video conferencing, etc.

Tourists think COVID-19 has created anxiety around the globe, travel is unsafe and reduced tourists travel plans, especially to big crowded cities (Nazneen et al, 2020). Tourists are more likely to travel independently or in small groups in the short term. They may also prefer less known local destinations instead of visiting crowded places (Wen et al., 2020). On the other hand, these tourists may be reluctant to participate in new experiences when the attitudes or behavior of others appear unpredictable. This situation will affect the demand for tourism differently (Zheng et al., 2020).

Mass labor and business losses may cause the effects of the pandemic to continue for a long time. Even if the pandemic passes, sectors such as tourism, travel, aviation, food and beverage will continue to struggle with hardships (Zhang et al., 2020). Not just tourism businesses but also other businesses that rely on tourism will suffer due to spillover effects. Beyond travel restrictions and quarantine practices, the cancellation of travel (Yu et al., 2020) and meetings by tourism businesses and the closure of the borders by governments supported this negative effect (Fernandes, 2020).

In terms of its effects on the world, it was stated in the projection made by OECD that the measures taken to control the effect and spread of the pandemic will create a negative shock on the economy and especially affect the working hours. In addition, it was stated that there will be a chain effect in the form of weakening in effective demand, loss of income with the employees who are laid off, and consequently reduced demand for travel and tourism services. As a result, a decrease in cash flow and deterioration of supply chains will arise (OECD, 2020). It can be said that Asian countries will be affected the most in this sense. It has been stated that it may take about 10 months for the industry to recover when the outbreak ends (Faus, 2020). Due to the magnitude of the multiplier effect, COVID-19 will present major challenges for the tourism sector, which has an impact on employment in many sectors such as agriculture, transport, handicrafts, catering and more (ILO, 2020).

3.1. Travel and Tourism

The most impacted sectors are services, especially requiring face-to-face interaction such as tourism. The biggest declines are expected in exports to Europe and East Asia and the

Pacific, driven by the recession and lower demand in those regions, the main destinations for US exports in services (Maliszewska et al, 2020). According to the statement made by the World Tourism and Travel Council (WTTC), this pandemic could leave 100 million people unemployed worldwide in the tourism industry, which constitutes approximately 10% of the global GDP. There may be a loss in travel and tourism GDP up to 2.7 trillion dollars in 2020. According to WTTC estimates, one million people could lose their jobs every day in the Travel and Tourism industry due to the widespread impact of the coronavirus pandemic. It is estimated that there will be $1.04 trillion loss to Travel and Tourism GDP and 63 million potential unemployment in the Asia-Pacific region. In Europe $708 billion loss and 13 million unemployment and for North America, potential job losses could exceed 8.2 million and amount to $ 680 billion in total GDP losses are estimated. (WTTC, 2020a). According to Oxford Economics (2020) Losses in the USA travel industry will far exceed that of any other sector. This year a $519 billion decline in travel spending in the US will transform into a total economic loss of $1.2 trillion in economic output. This is more than nine times the impact of 9/11 on travel sector revenue.

Considering the quarantine measures, travel bans, and border closures in most of Europe, which represents 50% of international tourism, and in many countries, such as, America, Africa, and the Middle East, the evolutions in Asia and the Pacific and the patterns of previous crises, UNWTO predicts that in the first-quarter, International tourism was down 22% and could decrease by 60-80% over the whole year. 67 million fewer international tourists up to March means US$80 billion in losses (UNWTO, 2020c), loss of 300 to 450 US$ billion in international tourism receipts and also almost one third of the US$ 1.5 trillion created globally in the worst-case scenario (UNWTO, 2020d). Not surprisingly, countries that highly rely on tourism are even more affected in this scenario, where the summer is almost entirely lost (Fernandes, 2020). Also, according to the Tourism Economics Company, it is estimated that there may be the following situations in the travel industry (Trimble et al., 2020a; Trimble et al., 2020b):

- The variety of restrictions on both international and domestic travel affect travel to all affected destinations, as well as outbound travel from all major markets.

- In the case of the impact on travel lasts for eight months and considerable uncertainty still surrounds the potential duration of travel bans, this will reduce travel by 39% globally. For Europe, a reduction in travel of 39% with 287 million fewer international arrivals is estimated.

• European cities on average have a lower dependency on long-haul tourists compared to other regions, with less than a quarter of international visits coming from long-haul source markets. This may allow European cities to enjoy a faster recovery if demand for short-haul travel (including staycations) returns more quickly than for long-haul.

• While rapid recovery is expected in 2021, 2019 volumes of international travel are not expected to be regained until 2023, as lingering effects on income impact on travel.

• Domestic city visitor arrivals are forecasted to decline 23% in 2020, a loss of 40 million visitors. Most European countries have imposed strict travel restrictions and it is likely that these restrictions will be eased first for domestic travel, therefore advancing the popularity of staycations across the region.

In 2020 revenue per room is estimated to decline 50.6%. Many businesses in the hospitality and entertainment sector have laid off a large number of employees because they have to stay closed or because of low customer traffic (Vertical IQ, 2020).

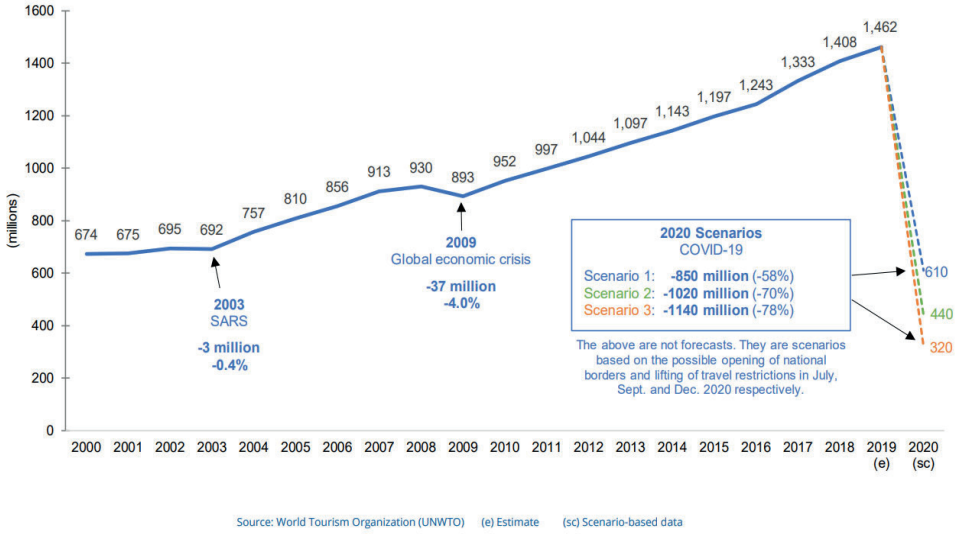


Figure 3: International tourist arrivals, 2000-2019 and scenarios for 2020 (millions)
Source: (UNWTO, 2020e).

UNWTO creates 3 different scenarios. As can be seen in the figure, the current scenarios indicate that there will be a 58% to 78% decrease in tourist arrivals by the end of this year. In addition, the loss in international travel demand means loss of 850 million tourists and 1.1 million tourists; loss of US $910 billion to US $1.2 trillion in export revenues from tourism and 100 to 120 million direct tourism jobs at risk (UNWTO, 2020c):

• Scenario 1 (-58%) based on the gradual opening of international borders and easing of travel restrictions in early July

• Scenario 2 (-70%) based on the gradual opening of international borders and easing of travel restrictions in early September

• Scenario 3 (-78%) based on the gradual opening of international borders and easing of travel restrictions only in early December.

3.2. Air Transport and Aviation

With the rapid spread of COVID-19 around the world, expectations with the tourism industry have taken a dramatic turn for the worse in many parts of the world. It is expected that the spread of the coronavirus will result in the first big fall in global air travel in more than a decade (Sweney, 2020). It is still uncertain how the virus will develop, but it can be seen the impact contained to a few markets and a $63 billion revenue loss (IATA, 2020), or a broader impact leading to a $113 billion loss of revenue which means a crisis for the sector (Maliszewska et al, 2020).

The International Air Transport Association (IATA) estimated 2020 global revenue losses will drop by $ 314 billion, a 55% decline compared to 2019. Full year passenger demand is expected to be down 48% compared to 2019. Airlines may burn through $61 billions of cash reserves due to travel restrictions. That puts at risk 25 million jobs dependent on aviation. In 2020, airlines may be faced with 1.5 billion fewer international air travelers. International seat capacity could drop by almost three-quarters, which result in a $273 billion loss compared to previously expected revenues (WTTC, 2020a).

Table 1: If COVID-19 Impact has a SARS-Shaped Profile (Passenger revenues)

Region of airline registration	Impact on 2020 RPKs (% of December forecast for 2020)	Impact on 2020 passenger revenue (billion US$)
Asia Pacific	-13.0%	-27.8
North America	-0.4%	-0.7
Europe	-0.4%	-0.6
Middle East	-0.2%	-0.1
Africa	-0.4%	-0.04
Latin America	-0.1%	-0.03
Industry	-4.7%	-29.3

Source: Pearce, 2020

According to IATA considering a similar scenario with SARS which resulted in a $28 billion loss of passenger revenues for Asia-Pacific airlines (Pearce, 2020). Even in a limited spread scenario of COVID-19, it is estimated that a decline of 23% in passenger numbers in China, 14% in South Korea, 12% decline in Japan, 10% in Singapore, and an 11% decline in

Asia Pacific (excluding these countries). In Europe, Italy could lose 24%, Germany and France each could lose 10%, and other European countries could lose 7% of their passengers. Additionally, there would be a 16% decline in Iran and 7% decline in the whole Middle East (excluding Iran) (Garcia, 2020).

3.3. Food and Beverage

The closure of restaurants and the adoption of social distancing as a fundamental strategy to manage the COVID-19 pandemic in many countries have caused restaurants with limited liquidity and small profit margins to face major recovery problems. Although the restaurants remain open for takeaway service, it has created an alternative opportunity, but it has especially adversely affected employment as it requires less staff. In addition, as the current revenue has become unable even to cover the costs, some small places such as cafes have preferred to remain closed (Gössling et al, 2020). With measures the food and beverage places accounted for 90% of the total job loss . According to The National Restaurant Association it is expected job loss for restaurants to number in the millions this year (Vertical IQ, 2020). In the USA roughly 110,000 restaurants are expected to close if these measures are not mitigated. More than 30,000 are already shuttered, according to the National Restaurant Association (Taylor, 2020).

National Restaurant Association states that in USA 8+ million restaurant employees have already been laid off or furloughed since the beginning of the coronavirus outbreak. This means 2 out of 3 restaurant employees have lost their jobs. It is estimated that the restaurant industry will sustain $240 billion in losses by the end of 2020 (National Restaurant Association, 2020). According to the association, the full economic impact will be $675 billion due to spillover effect, because every dollar spent in restaurants generates an additional $2 elsewhere in the economy (Ganginato, 2020).

4. Drawing the Picture of Turkey

COVID-19 pandemic has effects on the tourism sector in Turkey as well as in the world. According to scenarios, the pandemic would affect all stakeholders in short, medium and long term . It is foreseen that in the short-term, the tourism season may open in the first weeks of June; in the medium-term the tourism season is completely closed for the 2020 year, and in the long-term even if the pandemic has disappeared there will be permanent changes in the tourism industry.

Considering the statistics of the Ministry of Culture and Tourism, the number of tourists decreased by 20.52% in the first three months of 2020 compared to the same period of the previous year. In March 2019 Turkey was visited by 2.7 million people, in the same month of

2020 was visited by 968 thousand people. This means a 64.73% loss. In tourism revenues, there is a decrease of 11.4% between January and March compared to the same months of the previous year (Ministry of Culture and Tourism, 2020). 35-billion-dollar tourism revenues which was gained in 2019. (Ersöz & Öztürk, 2020). Even with the most optimistic forecasts, Turkey may lose 50% of revenues in 2019 (Bilen, 2020). In the worst scenario, with the assumption that the COVID-19 epidemic has continued so far and the normalization will take a long time, the year 2020 would be a lost year in terms of foreign tourism. However, it will be easier to gain the trust of local tourists and it will be carried out for domestic tourism. Moreover, considering the loss in package tour revenues ($ 9 billion) and 75% in other tourism revenues, there may be a total loss of $ 27 billion. In the best scenario with the losing effect of COVID-19 pandemic at the beginning of summer in Turkey and Europe, there may be some tourist movements in late summer and autumn. Turkey's loss in terms of tourism revenue will be approximately 11 billion dollars (Önal, 2020).

COVID-19 pandemic can cause short, medium, and long-term effects in the tourism sector of Turkey (Kılıç, 2020). Domestic tourism can be anticipated to recover first. It is currently unclear how accommodation businesses can make sure that rooms are safe for newly arriving guests, or how individual COVID-19 cases occurring in accommodation establishments would be handled (Gössling et al, 2020). In addition, domestic travel activities may be affected if travel restrictions and prohibition of inter-city entry and exit continue (Çobanoğlu & Doğan, 2020).

It is estimated that international tourism mobility can start with ethnic travels (Turks abroad visit our country) and Russian tourist movements. In addition to this, countries such as Asian countries, Europe, Germany, Austria, etc., will be able to start their tourism activities earlier since they are relatively recovering. The countries which were affected strongly by the pandemic such as France, Italy can block tourist mobility and this can make Turkey an alternative destination (NTV, 2020a). However, foreign currency revenues from tourism can approach zero for many countries, as the outbreak does not lose its influence in the medium term or a second wave can cause the tourism season to close completely (Çobanoğlu & Doğan, 2020).

5. Globalization, Tourism and COVID-19 Relationship

Globalization is the "interaction among people, companies, and governments across the world" (Shukla, 2020). According to Held & Mcgrew (2003) globalization means "a shift or transformation in the scale of human social organization that links distant communities and expands the reach of power relations across the world's major regions and continents". In other words, globalization is a dynamic, complex, and multidimensional phenomenon that occurs synchronously at different levels. At the same time, it changes the way of seeing and

analyzing political, economic, social, and technological events in different parts of the globe (Ruiz Estrada & Khan, 2020).

The current globalization process, dating back to the 1970s, includes the structural changes in the global economic and geopolitical order, including the rise of forces emerging in Asia and the shift of the epicenter of global activity from the Atlantic to the Pacific (Olivié & Gracia, 2020). The rapid development of technology after World War II has led to a decrease in airway transportation costs, and thus to expand the tourism movements. As a result, there was an incredible increase in the cross-border mobility of people, goods, services, and capital (Czaika & Neumayer, 2017). Due to this massive globalization of production, an economy's production and the global supply chain can easily affect each other (Barua, 2020).

While tourism is an important sector that affects globalization, on the other hand, the tourism demand process is affected by globalization (Ghosh, 2020). Tourism has taken full advantage of the technology that has led to its development and increased consumer demands in this sector. This is possible in a world involved in a globalization process that allows more and more people to travel, visit, and discover (Mărcuță et al., 2020). Thus, globalization in tourism can be defined as "a process of a sharp increase in tourist flows, as well as flows of services, capital, information, and technology, which usually do not fall under the regulation of national governments" (Stezhko et al., 2020).

With the rise of globalization, people got closer to each other without barriers and they have become connected (Kitenge, 2020). Industries are connected; countries are connected; therefore, any virus can be quickly spread (Zhang, 2020). In this respect, globalization has been both beneficial and detrimental to the social, political and economic spheres when it comes to the welfare of people. With globalization, free movement of people, goods and services has encouraged socio-economic development. However, this situation has made globalization a channel for the spread of diseases (Kitenge, 2020). As people are traveling more either for business or for entertainment, they are having more exposer to other countries (Shukla, 2020). In short, the mobility of people internationally has been a driver of outbreaks, because the COVID-19 relies heavily on human-to-human interactions (Farzanegan et al., 2020).

One of the most typical examples of globalization that has an uncertain impact on the tourism industry is the COVID-19 outbreak (Stezhko et al., 2020), could be also considered as the first real pandemic of the age of globalization since it effectively combines certain underlying characteristics such as global scale, speed of transmission, impacts of interdependencies of countries in the management of epidemics (Ludovic et al., 2020). Briefly, globalization has been attacked as a 'cause' of this pandemic (Zimmermann et al., 2020).

Travel and tourism have been an integral element of both the positive and negative effects of the globalization process, and it is therefore not surprising that these are the industries most affected by the COVID-19 outbreak (Galvani, 2020). While countries such as Italy, Spain, the United Kingdom, and the United States with higher numbers of confirmed cases and high human mobility are highly globalized nations, it can be observed that those with fewer cases are less globalized with lower numbers of visitors, and less domestic mobility (Sigler et al., 2020). Therefore, globalized economies, with a large service sector and a heavy emphasis on tourism, see a significant impact from the pandemic as a result of the fall in visitors (Olivié & Gracia, 2020). The fear of COVID-19 resulted in almost all of the transportation systems to close and suspend international flights. Besides, the global supply chain has been stopped and imports and exports are reduced. A huge shortage of parts, food items, textile, fabric and luxury goods has been faced by the countries. It has caused a crash in the stock market and a decrease in oil prices hit the lowest level of the last 30 years. Globalization has been damaged by all these (Ruiz Estrada & Khan, 2020). Although some of these effects disappear, some will persist for a long time or may reappear in future pandemics. Being a global phenomenon in any case, COVID-19 contributes to the development of global consciousness (Galvani, 2020).

6. Tourism in the times of Deglobalization

Deglobalization is mostly observed as one of the consequences of a global "economic" crisis. It is mainly discussed in studies examining global trade collapses such as, the great depression of the 1930s, the 2008/9 world trade collapse, the Asian financial crisis etc. (Van Bergeijk, 2017; Postelnicu et. al. 2015). Although it is mostly examined as an adverse meaning of globalization, Bello (2008) who has helped to define deglobalization states that deglobalization does not mean ignoring globalization completely but providing wealth by local economy. Bello (2008) also states that deglobalization refers more to "Re-orienting economies from the emphasis on production for export to production for the local market" rather than "withdrawing from the international economy" (Bello, 2008: 113). However, deglobalization is also known for a push factor to some negative social externalities at the global scale such as social complexity caused by immigration shocks, risks of contagion in financial downturns and inequality and social polarization which are very crucial for global tourism policies (Balsa-Barreiro et. al. 2020).

Similar to other global crises, COVID-19 pandemic is expected to affect globalization negatively by causing recession and disruption in global economy and world trade. In other words, COVID-19 is observed to cause reversing effects of globalization explained as

deglobalization (Shukla, 2020). These effects are considered even more devastating compared to other crises.

Travel and tourism take their part from the pandemic and almost all of the important factors making travel easy and supporting the tourism industry globally have been stopped (transportation, trade, mega events etc.). COVID-19 outbreak and this deglobalization process has engulfed tourism entirely (Niewiadomski, 2020). As mentioned before tourism is encouraged by globalization. Most of tourism activities requires imported products and significant collaborations are made globally such as mega events. Foreign investments are also intensive in the tourism industry and tourism is seen as a global activity in itself. Most countries have a big amount of foreign tourism capital and workforce which can be damaged by deglobalization also described as a driver of social polarization and inequality. In this perception, driving deglobalization, intentionally or not, can have an adverse impact on the future recovery of the tourism industry which is very dependent on global trends (Niewiadomski, 2020). However, tourism can be encouraged with some sustainable local policies during deglobalization and these policies can be persistent for providing sustainable tourism even in the re-globalized world.

7. Reconstruction with Opportunities

In spite of disasters and crises such as terrorism, wars, earthquakes and pandemics, tourism development particularly after 1945's is seen unstoppable because tourism has become one of the largest and most global industries (Williams, 2009: 55; Niewiadomski, 2020). Tourism is seen resilient at least for the long term. Considering the entire industry recovery time can be different in every single region, but it is ranged mostly from 12 to 34 months. Among destination crises such as health, terrorism, environmental and political disasters, health crises are seen more inelastic for the relationship between the size of impacts and recovery time. Uncertainty of COVID-19's duration obstructs the ability to estimate recovery time. Nevertheless, it is claimed that past experiences indicate recovery time will be one or two years at least after pandemic. (Khalilzadeh, 2020).

Although COVID-19 has caused recession and pushed de-globalization, it is also considered to bring unlimited path-shaping opportunities and a unique chance for a re-boot for global tourism industry (Shukla, 2020; Niewiadomski, 2020). As Nepal (2020) has interpreted, COVID-19 gives a chance to learn lessons from the past mistakes of prioritizing quantity over quality. COVID-19 pandemic is seen as a reset button for more equitable and sustainable world. The pandemic is seen by advocates of sustainable tourism to create opportunities which could not even been dreamed about a very short time ago (Niewiadomski, 2020).

One of the lessons learned from COVID-19 is the importance of wellbeing of both tourists and locals. Since it has been clearer that high mass consumption is seen unsustainable for human health as well as the environment, wellbeing is getting more attention and tourism for health with sustainable ways has already became one of the top topics to consider for resetting (Everingham & Chassagne, 2020). Stakeholders should reconsider consumption patterns and sustainability of travel and tourism industry rather than try to return to "business as usual as soon as possible" (Higgins-Desbiolles, 2020). Furthermore, the tourism industry's power of supporting economic recovery in a sustainable manner can be boosted by contributing to the decline of unsustainable sectors which are damaged during the pandemic (Everingham & Chassagne, 2020).

Destinations' collaboration is also estimated very crucial for recovery. Destinations can take advantage of closer ones for triggering travel beyond borders. A study put forth that West Balkan countries including Turkey should be in co-opetition rather than competition for tourism in order to adapt post COVID-19 pandemic (Nientied & Shutina, 2020). Focusing on domestic tourism is the primary strategy for starting the recovery. Neighboring countries could be a very important strategic alliance providing easier travel planning as the next step after supporting domestic tourism for regrowth of tourism destinations internationally.

8. Conclusions

Almost all of the economies and sectors in the world are affected by the COVID-19 disease, and the lockdown process to avoid the spread of this disease. Tourism is one of the industries to be affected hardest and the size of the effects is still seen as unpredictable. Therefore, this situation creates uncertainty in the tourism industry. In the year 2020, all policies and projects changed their focus to find a solution to return to the usual way of life and respond to the pandemic with the lowest damage. However, foreseeing the opportunities are seen as important as avoiding the effects of this process. Tourism is seen as a convenient sector to create opportunities both at the micro and macro level due to the capability of adapting to various conditions and crisis. It is becoming more resilient due to people's increasing needs to relax, curiosity, and desire to learn, etc. During and after COVID-19 tourism needs to be planned according to the conditions. During the COVID-19 pandemic, tourism production just like others has been evolving, and "new normal" needs to be recognized by every phase of the industry to gain the ability to survive.

Globalization without doubt encourages tourism production and consumption. However, even before the COVID-19 pandemic, there were several factors to reduce globalization.

Briefly, there has already been a trend to question existing systems including tourism systems. In addition to that with the pandemic, the deglobalization trend is pushed further (Irwin, 2020), and looking for new production and consumption systems has been boosted. Due to the interlinked socio-cultural, economic, psychological, and political impacts of COVID-19, "old" models and approaches may be subjected to change and it is seen as an opportunity to reconstruct the tourism industry (Sigala, 2020). Deglobalization, which is a relatively new phenomenon, creates a big amount of problems on tourism forms developed earlier. In many destinations, tourism has grown too much in an unsustainable way to the detriment of local communities. Even before the pandemic tourism regrowth is suggested as in models as "Local Community-Centered Tourism" (Higgins-Desboilles et. al. 2019) and following "Re-"s to rethink tourism are offered;

- Re-evaluate and shift values,
- Re-conceptualize entrenched capitalist concepts,
- Restructure production,
- Redistributions at the global, regional and local scale,
- Re-localize the economy,
- Reduction, re-use and recycling of resources.

Deglobalization is more related to producing and consuming locally. Tourism in deglobalized times should be pushed by local products, investments, and resources in order to start constructing its future. Deglobalization causing a decrease in cross border projects, investments, and cooperation will also lead to lower employment (Buklemishev, 2020; Nientied & Shutina, 2020). Tourism (re)employment can also be supported with a qualified and local workforce.

Creating social distance between tourists in crowded places and imposing safety distances will reduce the problem of over-tourism by reducing the number of tourists at a time. Thus, environmental sustainability will also be promoted (Menegaki, 2020). Some tourism businesses and destinations will see their presence economies shrink, forcing them to turn to local consumers and their needs. Upon increasing immunity, while the tourist, the other, is once again part of the landscape, local connections established during the crisis may remain strategies of diversification and resilience (Lapointe, 2020).

Another example to plan tourism for better is reconsidering supply chains. Multinational companies in particular operate in long supply chains to minimize production costs. But as a

result of the crisis, they may have to reconsider their practices and focus on shorter regional or local supply chains. This may require both contracting with more local suppliers of food, raw materials and services, and a change in the composition of the workforce (for example, replacing low-wage migrants with local workers) (Ioannides & Gyimóthy, 2020).

The base of the reconstruction of the industry can be planned with collaborations with neighboring countries and destinations can start marketing their local creative tourism products to closer destinations and create geographical synergy. While social distancing between countries can still remain, constructing little regional groups with controlling the virus could be a starting point for international tourism. Europe, for instance, can make collaborations inside of the union.

Sustainability in tourism has been intensely discussed in studies for more than thirty years. However, very few solutions have been implemented to make tourism benefit for everyone. The themes of scientific meetings are like "if we continue to consume resources this much there will not be any resources for the future of tourism or communities". To describe that, "The world (and tourism) had to stop in order not to fall" (Niewiadomski, 2020) and with the pandemic all systems had a chance to stop and reset for better. The best response to the pandemic is seen to find opportunities providing better tourism plans for the advantage of everyone (employees, economies, community, tourists, policymakers, other sectors, environment, etc.). Tourism reconstruction is suggested to be community responsive in order to have a meaningful impact on society (Nepal, 2020). Now it is seen as an opportunity to make industry reborn out of its ashes and opportunities are seen too significant to be ignored, particularly for communities. Following initial steps to make tourism reborn after COVID-19 can also be taken into consideration (Darbari, 2020);

- Building consumer trust and credibility: industry should adopt health and hygiene protocols and service providers should communicate with potential tourists about safety.

- Regional cooperation towards restoration: since recovery is estimated to be proximity-based, gradually moving from domestic to regional and lastly intercontinental, cooperation need to be planned location based.

- Niche tourism push: niche tourism segments should be promoted including health and medical tourism.

- Long-term measures to build resilience: strengthening tourism infrastructure and planning tourism to push other sectors.

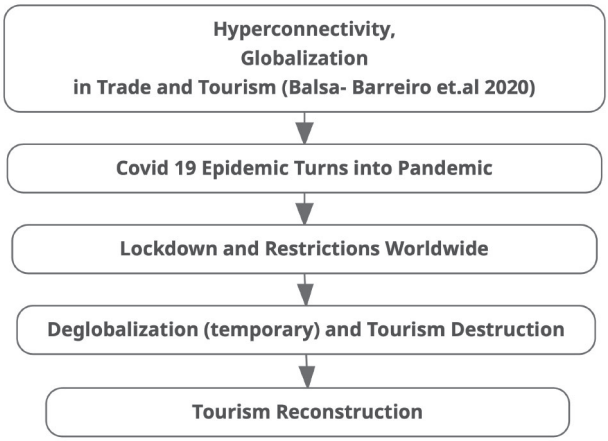


Figure 4: The Process of Tourism Reconstruction during Deglobalization Caused by COVID-19 Pandemic

This study has purposed to highlight the relations amid the tourism industry, deglobalization, and COVID-19 pandemic (Figure 2). By filling this gap future studies can be designed to find the strategies under the conditions of deglobalization and pandemic and different approaches to making tourism more sustainable. It is seen important to research tourism in the deglobalization and recession processes. Late studies have also shown that COVID-19 makes policymakers and researchers remember that tourism has made little contribution to the discipline of sociology. However, tourism needs to study more in the context of sociology and will need to address important and emergent topics such as deglobalization and isolationism (Cohen & Cohen, 2019). World tourism policy trends are observed to be more for the benefit of communities and COVID-19 is seen as a crucial push factor of this trend.

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PART 2

FISCAL RISKS AND UNCERTAINTIES

CHAPTER 2.1.

THE EFFECTS OF THE COVID-19 FISCAL MEASURES ON ECONOMIC VARIABLES: AN ANALYSIS ACROSS COUNTRIES AND COUNTRY GROUPS

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Abstract

The first case of COVID-19 was discovered on November 17, 2019 in China, followed by Thailand and Japan in January, and South Korea, Taiwan, USA, France, and Australia at the end of January 2020. The negative economic effects that started in February due to halting business activities and international travel limitations, as well as limitations on imports and exports, became most unsettling in March and April. The pandemic that took hold of the globe, very shortly reached beyond being a health crisis, and its social, political, economic, and financial effects started to enter the agenda. While the effects of the crisis on national economies were very heavy due to its global scale, its depth has varied from country to country. The economic and financial effects of the crisis will depend on, first the current problems and structural characteristics of a country at the time it faced the crisis, and second, the responses and the forms and speeds of interventions by policy makers. Measures taken and policy decisions made by nation-states will lead to different outcomes for different countries and country groups. This study analyses these fiscal measures in three categories: fiscal emergency measures, deferrals, and liquidity provision and credit guarantees. The analysis starts with a monthly evaluation throughout the pandemic according to country groups, using EU, G7, G20, and OECD data. Data on individual countries were also analyzed when national data was available and correlations between these three types of fiscal measures and certain economic variables were evaluated. The study found significant and positive correlations between emergency measure packages and changes in exports, liquidity provision and credits, and interest rates.

Keywords: COVID-19 Pandemic, Fiscal Measures, Economic Variables, Correlation Matrix, Cross-Country Analysis.

1. Introduction

March 11, 2020 is the day the World Health Organization announced that COVID-19 is a pandemic, and it is considered to be the beginning of a new global crisis. COVID-19 is a health crisis, and every nation's primary target has been protecting human health and controlling a possible capacity increase in their health care systems. In this context, the initial measures taken to reduce the damage caused by the virus have been directed to reinforcing the healthcare system, and in order to prevent a healthcare crisis and to slow down the spread of the disease, the first measure taken was limiting social mobility. Temporarily shutting down public spaces and businesses, canceling public events, public transport limitations, suspension of education, travel limitations, social isolation, and partial curfews have been the initial response in every country.

While the impact of the crisis on national economies has been very intense due to its global scale, the depth of the crisis varied from country to country. The economic and financial effects of the crisis vary, first, according to the existing problems and structural characteristics of the countries at the time they faced the crisis and, second, according to the responses and forms and speeds of intervention by policy makers. It has been observed that the world was caught unprepared, at a global scale, to a crisis that imposes huge costs in terms of human health and the economy, and the responses to the crisis have not been sufficiently coordinated, with each country devising distinctive methods to cope. While the most economically sensitive countries and their poor take the biggest blow, the ground for collaboration that international organizations tried to evoke has fallen short.

Since the date that the World Health Organization declared the pandemic, the biggest economic impact of this crisis has been on the supply side. The pandemic itself significantly reduced labor force participation rates. The increase in the number of unemployment claims in the US is considered to be the highest rates since the Great Depression. Moreover, people infected with COVID-19 and people who have been in contact with them have been legally forced to withdraw from production. Production stopped completely in certain industries due to the measure towards preventing the spread of the disease and almost stopped in others due to the disruption of supply chains. COVID-19 negatively affected the demand side of the economy as well. Unemployment due to socialization limitations and reduction in production affected purchasing power and household consumption demand as well.

The countries that were harmed the most in the pandemic are the ones that have an important share in the world economy. Thus, the economic effects of the COVID-19 crisis

are expected to be heavier than other crises. Each country is trying its best to minimize the damage by preparing fiscal measure packages. Nevertheless, the global cost of the fight against a worldwide epidemic with an uncertain duration will be high for the whole world.

The effects of this health crisis on society and the economy will depend on the measures taken in the process. The measure packages and policy decisions by nation-states will lead to differences in outcomes among countries and country groups. This study aims to analyze empirically the varying effects of fiscal measures that aim to reduce the impacts of the COVID-19 crisis for different countries and country groups.

2. Fiscal Policies and Fiscal Measures during the COVID-19 Pandemic

The two basic policy targets that were very immediately adopted by every country were social isolation to prevent the virus from spreading and rapidly implementing fiscal measure packages in order to mitigate economic recession. To this extent, the initial measures have been policy measures towards preventing the healthcare system from collapse and reducing the rate of the spread of the disease. As opposed to other crises, the COVID-19 pandemic crisis is primarily a health crisis. Therefore, the first social and fiscal measures have been directed towards the healthcare sector in order to protect human lives. Developing a vaccine and a treatment, protecting healthcare workers and income provision, capacity building measures, and aid to other countries can be included in this category.

As in other crises, another important target in this process has been maintaining the web of economic relationships among employers and workers, producers and consumers, and lenders and borrowers in parallel with the social and economic effects of the pandemic. Rapid and coherent governmental responses were needed to alleviate the health and economic effects of COVID-19, and fiscal policies played a very important role. To this extent fiscal policies have been introduced in many countries around the world under the name of fiscal measures.

The fiscal measure packages that various countries announced in order to get the COVID-19 pandemic under control and to minimize its socioeconomic effects are presented in Figure 1.

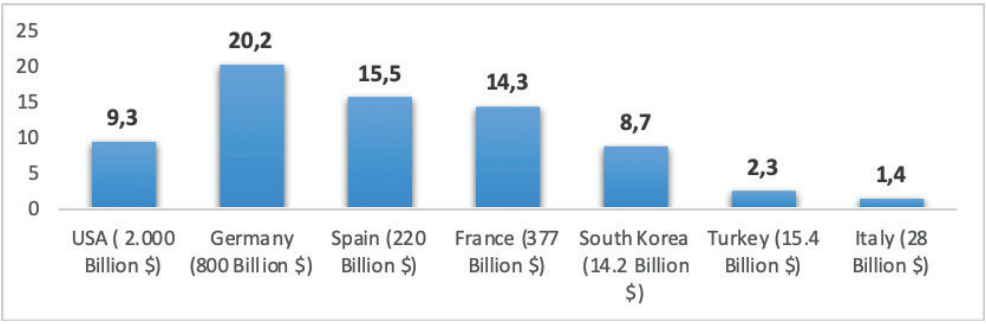


Figure 1. The Initial COVID-19 Pandemic Fiscal Measure Packages as % of 2019 GDP for Selected Countries
Source: Data was compiled from statements of the finance ministries of these countries. 2019 GDP figures were used.

Figure 1. shows the initial support packages announced by developed countries that have been affected by the health crisis most in terms of the number of cases and deaths and packages announced by Turkey and South Korea, which were relatively less affected. The highest support package with respect to the country's GDP was announced by Germany. The scope of the fiscal support packages was expanded as the impact of the health crisis increased. Especially in Italy, the size of the package was increased as the health and economic aspects of the crisis grew.

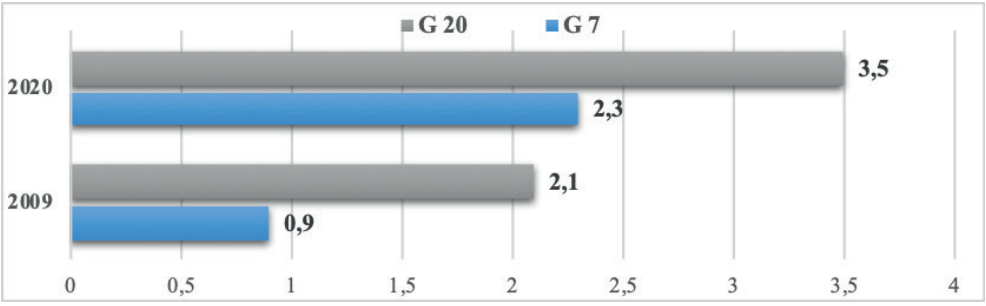


Figure 2. The Ratio of the Fiscal Measure Packages to GDP in G-7 and G-20 Countries during the Global Financial Crisis and the COVID-19 Pandemic
Source: IMF, Fiscal Monitor, April 2020a

By April 8, 2020, the G-20 economies had announced that they will use, through revenue and expenditures, approximately 3.5% of their GDP as a fiscal measure against the pandemic. This amount is considerably high in comparison to the 2.1% package announced in 2009 against the Global Financial Crisis that started in 2008. Similarly, the G-7 countries allocated 0.9% of their GDP in 2009 for the financial crisis while declaring 2.3% when the 2020 crisis

started. The comparison between the size of the fiscal measures in 2020 and 2009 implies that the recession caused by the health crisis, when combined with the uncertainties of the pandemic, will be more serious. It can be said that nation-states have been more cautious now than they were during the 2009 financial crisis.

The fiscal measures introduced by governments for households and companies can be categorized according to their expected effects as follows (Anderson, et al. 2020):

- ***Emergency Fiscal Measures***: The initial measures taken as an expansionary fiscal policy are additional state expenditures (healthcare research, payroll support, income transfers, subsidizing SME's, public investments) and foregone revenues (cancellation of certain taxes, tax reductions and exemptions, exemptions for social security contributions), which are automatic stability restorers. Emergency fiscal measures simultaneously repress economic stagnation and increase fiscal deficits.
- ***Deferrals:*** In some countries, social security contributions and some taxes have been deferred. Further measures were adopted in terms of credit services and bill payment deferrals. These measures will increase individuals' incomes and liquidity positions of companies without removing their liabilities. Despite revenue losses by individuals, falling profits for companies, and the reduction of tax revenues, the disruptions in budget balances will be at a reparable level.
- ***Liquidity Provisions and Credit Guarantees:*** These measures include export guarantees, liquidity provisions, and credits via national development banks. These measures improve cash flow for the private sector. However, companies need to take positions and act according to the credits they receive. The measures in this category will not weaken the budget balance in 2020. However, the budget balance will be negatively affected if cash flow provisions cannot achieve economic recovery.

At the global level, spending and revenue measures amount to $3.3 trillion, and loans, equity injections, and guarantees total $4.5 trillion. Different types of fiscal support will have different effects in terms of public finance and economic variables in the short and the long run. Additional spending or tax cuts result in immediately higher budget deficits. Support to companies in financial trouble through loans or equity injections do not impact budgets directly but may increase debt or require additional borrowing. Guarantees do not affect deficits or debt in the near term, but they expose the government to medium- to long-term fiscal risks (IMF, Nisan 2020a: 2-18).

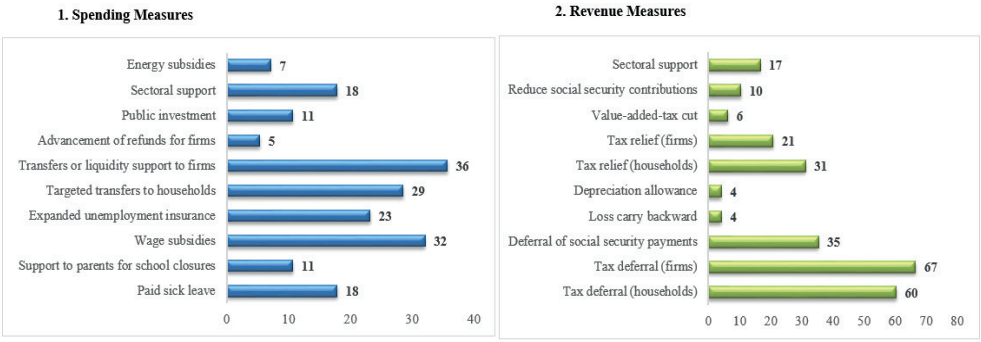


Figure 3. Common Fiscal Support Measures for Non-Health Sectors in Response to COVID-19 (Percent of economies with fiscal support measures)
Sources: Announcements by national authorities; IMF Policy Tracker 2020b ; and IMF staff estimates.

The ratio of the expenditure and revenue provision items, excluding healthcare, in fiscal support by IMF member states to households and companies are given in the chart above. It is seen that across the globe, expenditure support for SME's and households were predominantly in the form of cash and credit support. Income support on the other hand is focused more on tax deferrals for companies and households.

Another important issue related to fiscal measures is the differences between the weights of the fiscal measure packages in different countries. Fiscal measures taken by developing countries are very low compared to developed ones. The initial packages by some countries such as the US, Australia, and Canada focus on fiscal measures through revenue and expenditures while Germany, Italy, France, Spain, and England focus on credit and guaranteed debts. Considering their impacts, these countries' budget deficits will increase if they cannot find resources for revenues and expenditures and resort to funding from their budgets. Countries that expand credit possibilities on the other hand will need to avoid fiscal risks in the future.

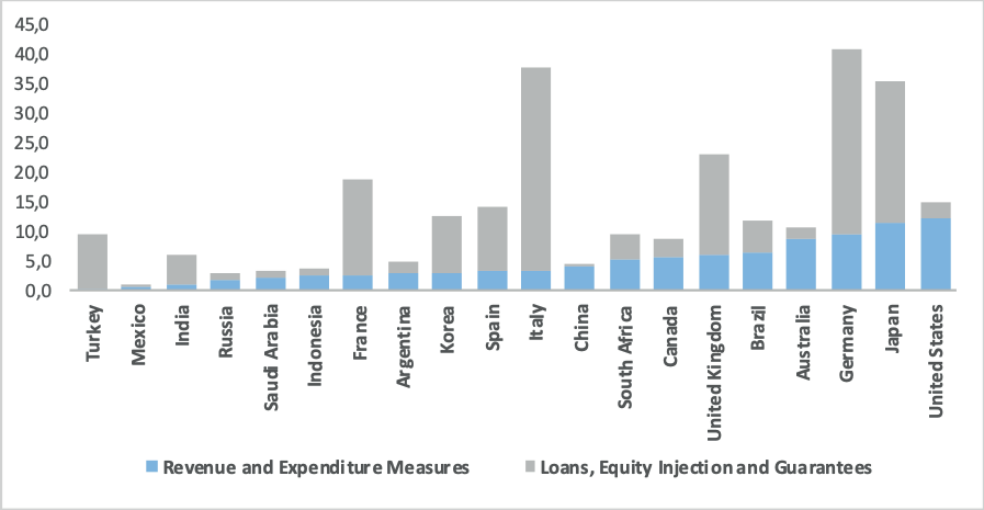


Figure 4. Fiscal Response to the COVID-19 Pandemic
(percent of national GDP)
Sources: Announcements by national authorities; IMF Policy Tracker 2020b ; and IMF staff estimates, June 2020.

The shares of the three types of fiscal measure packages in the respective country's GDP are given in Appendix Table 8. Countries that allocate the highest shares for emergency fiscal measures from their GDP are, respectively, New Zealand, Singapore, the US, and Japan while the lowest share is 0.2%, which is allocated by Turkey. Denmark, Sweden, and Japan have the highest shares of deferrals while the lowest is Argentina. Turkey is around the middle of this list with 1.4%. The countries that allocated the highest share of their GDP for liquidity provisions and credit guarantees are, respectively, Italy, Germany, and Japan. Turkey is 11th among 51 countries with 9.1% (Figure 4).

3. Fiscal Effects of the Measures Adopted at the Beginning of the COVID - 19 Pandemic

Different measure packages in size and content by different countries will have a different scale of effects as well. First of all, every country has different economic conditions, and they faced the crisis under different circumstances. Rapidly adopted and effective measure packages will doubtlessly alleviate stagnation. While the size and contents of the packages open the gap among countries, their effects remain similar:

- *The impact of these expansionary fiscal policies will lead to the suspension of fiscal regulations and disruption of fiscal discipline,*

- *Budget deficits and public debt burden will increase,*
- *Fiscal risks will increase, and some countries will face a financial crisis,*
- *Fiscal risks for companies will increase when their access to state loans and debt guarantees are limited,*
- *The costs of additional fiscal expenditures will rise dramatically in countries with heavy debt burdens,*
- *High debt and increased cost of borrowing will complicate the implementation of fiscal policies,*
- *Reduced public investments will affect growth figures in developing countries.*

Developed countries have the capacity to announce bigger fiscal packages than developing countries. These countries will probably overcome the crisis faster as well, and this will increase income inequality between countries. Developed European countries and the US have announced large support packages. In these countries, the fiscal effect of the crisis will be lower as long as company performances do not fall since the packages consist mainly of income support and loan guarantees that will accelerate cash flows. However, since this crisis itself is a supply shock, a slowed-down global trade and broken supply chains will lead to increased fiscal risks for companies.

The fact that public debt is not very high in Asian countries, that fiscal accounts are generally healthy in developing European countries, and that most Gulf countries have significant amounts of Sovereign Wealth Funds, will ease these countries in terms of fiscal provisions, yet their budget deficits and public debt will inevitably increase. Although the macroeconomic effects of the pandemic are uncertain and the size of discretionary fiscal policy responses to COVID-19 may still rise, they will affect the overall balance and public-debt-to-GDP ratios over the medium term (IMF, 2020a: 9)

Since national debt burdens have increased in countries with relatively weaker economic data, it will become more costly for these counties to generate additional funding. Weaker countries will turn to the IMF and World Bank for resources.

4. Effects of the Fiscal Measures Taken During the Pandemic on Economic Variables – Comparison between Countries and Country Groups

The first cases of COVID-19 were discovered on November 17, 2019 in China, followed by Thailand and Japan in January, and South Korea, Taiwan, the USA, France, and Australia at the end of January. The negative economic effects that started in February due to halting business activities and international travel limitations as well as limitations on imports and

exports became most unsettling in March and April. Since the World Health Organization announced the pandemic, the biggest economic impact of this process has been on the supply side. The first effect of the COVID-19 crisis on the supply aspect was the fall of labor force contributions due to legal limitations on and reductions of working hours. Moreover, people who are infected with COVID-19 and people who have been in contact with them had to withdraw from production. People responsible for taking care of disabled people, the elderly, and children also, indirectly, had to withdraw from the labor supply. The employed labor force was reduced, and production was negatively affected.

The second effect of COVID-19 on the supply aspect is related to production and supply chains. The public health measures towards stopping the epidemic, travel bans, prohibition of social activities, curfews, stay-home and business closure practices caused economic activities to slow down- even stop completely in certain industries- and production to fall. This constriction of the supply of goods resulted in broken supply chains and increased losses as well as bankruptcies and increased unemployment (Elgin and Başbuğ, 2020).

The effects of the COVID-19 crisis and related social restrictions on the demand side also caused demand to grind to a halt, especially for service sector industries such as retail, cafes and restaurants, tourism and travel, and small local businesses. As a result of lowered social mobility, reduced consumption of goods and services, reduced purchasing power, and insecurities due to the withdrawal of the labor force from the economy caused significant reductions in consumption spending and demand shocks. Another reason for the demand shock has been the serious constrictions in exports due to the global reduction of the goods and services trade. For instance, the fact that Europe and the US, which have a significant share in Turkey's exports, were the most effected countries from the crisis reduced the demand for its export goods. Long delays at customs also caused disruptions in trade. Decreased production and consumption and the constriction of employment, all very important economic variables, also slowed down economic growth. The effects of the pandemic crisis on the trade of goods and money influenced interest rates as well, causing some currencies to lose and others to gain value in the global market.

The tables below were prepared to compare certain economic variables that are subjected to analysis for various country groups before and during the pandemic. Since data for most economic variables are published quarterly and annually, only exports, unemployment, consumer price index, interest rates, and industrial production variables could be analyzed. The currency exchange value against the US Dollar was also included. In addition to the comparison given in the appendices, the analysis involved an evaluation according to EU,

G-7, G-20, and OECD country groups. All of the data was obtained from OECD statistics, and calculations were made by the authors.

- ***Export***

The table below shows export figures for the EU, G-7, G-20 and OECD countries before and during the pandemic.

Table 1. Export (Billions, USA $)

Export	Number of countries[1]	(Billions, USA $)					Change	Change (%)
		January	February	March	April	May		
EU	22	474.0	467.6	423.6	318.6	353.9	-120.14	-5.17
G7	7	478.3	479.0	432.2	323.8	334.7	-143.58	-20.62
G20	19	1142.6	1205.3	1096.4	891.7	927.8	-214.82	-14.60
OECD	37	906.9	896.9	825.4	633.1	658.0	-248.91	-6.46
World	46	1178.3	1241.7	1129.2	921.5	952.9	-225.5	-24.52

As shown in Table 1 and Figure 5, exports of the EU and OECD countries fell to a certain extent from January to February while rising in G-7 and G-20 countries. By March and April, however, export volumes had fallen significantly for all groups. Although there was a comparative increase in May, January and February volumes had not been reached. According to this table exports of G-7 countries fell by 143 billion US Dollars, or approximately 21%, from February to May. This group was followed by G-20 countries with a 14% fall in exports. The falls in exports for OECD and EU countries have been lower than other groups. When figures from 46 countries that publish their data monthly is considered as world data, exports have fallen by 225.5 billon US Dollars, or approximately 25%.

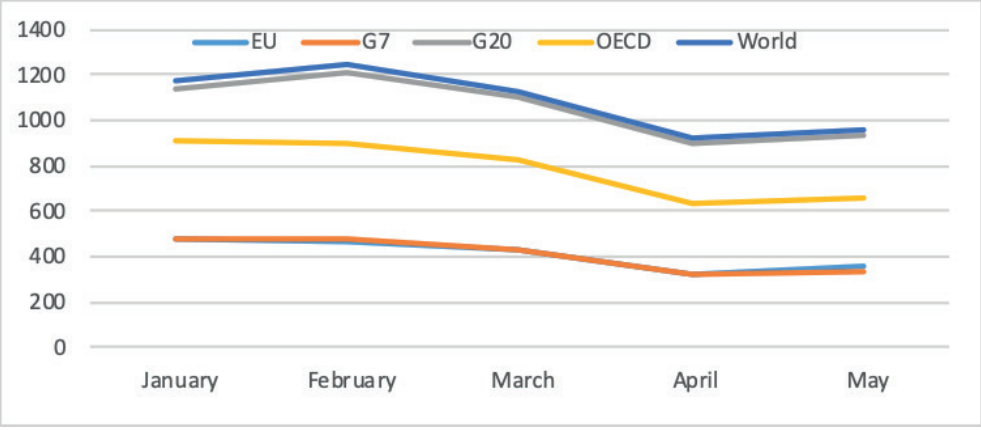


Figure 5. Export (Billions USA Dolar)

1 The countries whose data can be accessed are given in Table 9

As seen in Table 9 in the appendices, the biggest fall of exports between February 2020 and May 2020 was 52% in Mexico, followed by 45% in Saudi Arabia. Colombia, Canada, France, and the US follow them. Turkey's exports have fallen 27% in this period. The least effected countries are China, Australia, and Chile. Ireland's exports on the other hand have increased.

- ***Unemployment Rate***

Table 2. Unemployment Rate (%)

Unemployment rate (%)	Number of countries[2]	January	February	March	April	May	Change
EU	22	6.2	6.1	6.1	6.2	6.5	0.4
G7	7	5.2	5.1	5.4	7.1	7.1	2.0
G20	11	5.6	5.4	5.5	5.1	5.2	-0.2
OECD	35	5.5	5.5	6.0	6.8	7.1	1.6

The data given in Table 2 shows that the rate of unemployment increased 2% in G-7 countries, 1.6% in OECD countries, and 0.4% in EU countries from February 2020 to May 2020. Meanwhile, there has been a 1% increase from February to March in G-20 countries, followed by a rapid fall to a level below January and February figures. Table 9 in the appendices show that the highest rise in unemployment rates were recorded in Colombia, doubling from February to May. This country is followed by the US and Canada, where unemployment rates rose, respectively, from 3.5% and 5.6% to 13.3% and 13.7%. In Italy and Portugal on the other hand, unemployment rates have fallen from February to May. World data is not included because most of the available monthly data is from OECD countries.

- ***Consumer Price Index***

Table 3. Consumer Price Index (%)

CPI (%)	Number of countries[3]	February	March	April	May	Change
EU	22	106.4	106.5	106.3	106.2	-0.2
G7	7	105.9	105.8	105.7	105.7	-0.2
G20	17	115.8	115.8	115.8	115.3	-0.5
OECD	33	109.4	109.5	109.4	109.4	0.0
World	42	110.9	110.9	110.8	110.5	-0.4

The consumer price index figures and their changes within 2020 according to country groups are given in Table 3. According to the table, the consumer price index has not changed significantly in any group, and it stayed the same in OECD countries while falling 0.2% in the EU and G-7 and 0.5% in the G-20. For the 42 countries with available data, it was found that the consumer price index fell 0.4%. According to Table 9, China had the highest fall with 3.4% while Turkey had the biggest rise with 6.8%.

2 The countries whose data can be accessed are given in Table 9.

3 The countries whose data can be accessed are given in Table 9.

- ***Interest Rate***

Table 4. Interest Rate (%)

Interest Rate (Overnight interbank rate)	Number of countries[4]	February	March	April	May	Change
EU	22	-0.19	-0.21	-0.26	-0.30	-0.11
G7	7	0.38	0.05	-0.15	-0.15	-0.53
G20	17	2.83	2.54	2.28	1.91	-0.92
OECD	37	0.74	0.54	0.37	0.28	-0.46
World	43	1.37	1.35	0.95	0.69	-0.69

Table 4 shows overnight interest rates for four country groups. All groups have reduced interest rates during the COVID-19 epidemic, and the biggest reduction happened in G-20 countries. For the 43 countries whose interest rate data were available, the overall reduction was 0.68%. According to Table 9, Turkey and South Africa reduced interest rates by 2.5%, followed by Czechia and Iceland with 3% and 1.8%, respectively. Denmark and Hungary, on the other hand, had increased interest rates.

- ***Industrial Production***

Table 5. Industrial Production (Index, 2015=100)

Industrial Production (index, 2015=100)	Number of countries[5]	February	March	April	May	Change
EU	22	110.09	102.16	86.65	92.63	-17.47
G7	7	103.30	92.37	77.11	82.45	-20.85
G20	11	106.76	98.55	82.52	88.26	-18.50
OECD	31	108.93	102.32	87.61	92.22	-16.71
World	32	108.70	109.06	102.55	87.99	-20.71

Table 5 shows that industrial production fell between 17 and 21% in all countries. For the 32 countries with available data, a reduction of 21% was recorded. According to Table 9, the countries with the highest fall in industrial production were Slovakia, Hungary, Turkey, and Portugal, in this order.

- ***Exchange Rate***

Table 6 shows some exchange rates against the US Dollar. The highest devaluation is recorded for the Brazilian Real with 30%, followed by the South African Rand (about 21%), the Mexican Peso (about 18%), the Russian Ruble (about 14%), the Colombian Peso (13%), and the Turkish Lira (12%). The Swedish Krone, Danish Krone, Australian Dollar, Euro, Swiss Franc, Japanese Yen, New Zealand Dollar, Chilean Peso, and Hungarian Forint, on the other hand, respectively, had the highest appreciation against the US Dollar.

4 The countries whose data can be accessed are given in Table 9.

5 The countries whose data can be accessed are given in Table 9.

Table 6. Exchange Rate							
Country	**Unit**	**January**	**February**	**March**	**April**	**May**	**June**
Australia	Australian Dollar	1.45	1.50	1.61	1.59	1.54	1.45
Euro Zone	Euro	0.90	0.92	0.91	0.92	0.92	0.89
Canada	Canadian Dollar	1.31	1.33	1.40	1.41	1.40	1.36
Chile	Chilean Peso	774.18	797.71	840.33	852.09	820.02	795.88
Colombia	Colombian Peso	3317.20	3409.82	3870.01	3986.56	3863.34	-
Czech Republic	Czech Koruna	22.71	22.97	24.04	25.07	25.01	23.71
Denmark	Danish Krone	6.73	6.85	6.75	6.87	6.84	6.63
Hungary	Forint	300.91	309.27	312.11	327.99	322.36	308.68
Iceland	Iceland Krona	123.35	126.75	134.73	144.23	143.95	135.55
Israel	New Israeli Sheqel	3.46	3.43	3.60	3.57	3.52	3.46
Italy	Euro	0.90	0.92	0.91	0.92	0.92	0.89
Japan	Yen	109.33	110.03	107.49	107.81	107.22	107.59
Korea	Won	1165.55	1195.17	1220.30	1224.46	1229.06	1208.23
Mexico	Mexican Peso	18.78	18.80	22.14	24.10	23.33	22.16
New Zealand	New Zealand Dollar	1.51	1.56	1.65	1.66	1.64	1.55
Norway	Norwegian Krone	8.95	9.29	10.22	10.42	10.09	9.53
Poland	Zloty	3.83	3.92	4.01	4.18	4.16	3.94
Sweden	Swedish Krona	9.50	9.69	9.80	10.02	9.74	9.31
Switzerland	Swiss Franc	0.97	0.98	0.96	0.97	0.97	0.95
Turkey	Turkish Lira	5.93	6.06	6.34	6.85	6.93	6.82
United Kingdom	Pound Sterling	0.76	0.77	0.81	0.81	0.81	0.80
Argentina	Argentine Peso	59.91	61.26	63.02	65.66	67.63	-
Brazil	Brazilian Real	4.15	4.34	4.93	5.32	5.64	-
China	Yuan Renminbi	6.92	7.00	7.02	7.07	7.11	-
India	Indian Rupee	71.31	71.49	74.35	76.24	75.66	-
Indonesia	Rupiah	13732.2	13776.2	15194.6	15867.4	14906.2	-
Russia	Russian Ruble	61.78	63.88	73.15	75.22	72.61	-
Saudi Arabia	Saudi Riyal	3.75	3.75	3.75	3.75	3.75	-
South Africa	Rand	14.40	15.02	16.61	18.58	18.14	-

5. The Effects of the Fiscal Measures Taken by Countries during the COVID 19 Pandemic on Economic Variables

The COVID-19 fiscal measures put in effect by governments towards households and companies were put in three categories (urgent fiscal measures, deferrals, and liquidity provision and credit guarantee) in the second section of this study, and the relationships between these measures and the economic variables that have been analyzed throughout the COVID-19 pandemic were presented.

These relationships were analyzed using the pairwise correlation matrix, which informs us about the direction and the size of the relationship without including any causal relationship between variables. Pearson's (1986) product-moment correlation coefficient ρ is calculated with this formula:

$$\hat{\rho} = \frac{\sum_{i=1}^{n} w_i \left(x_i - \overline{x}\right)\left(y_i - \overline{y}\right)}{\sqrt{\sum_{i=1}^{n} w_i \left(x_i - \overline{x}\right)^2} \sqrt{\sum_{i=1}^{n} w_i \left(y_i - \overline{y}\right)^2}} \tag{1}$$

if the weight (w_i) is not specified, it is considered as one (w_i=1). $\overline{x}$, which is indicating the mean value of x, is calculated with:

$$\overline{x} = \left(\sum w_i x_i\right) / \left(\sum w_i\right) \tag{2}$$

The significance level of the pairwise correlation is calculated with:

$$p = 2 * ttail\left(n-2, |\hat{\rho}| \sqrt{n-2} \Big/ \sqrt{1-\hat{\rho}^2}\right) \tag{3}$$

Table 7 presents the correlations and their significances between the variables mentioned in the table of correlations.

Table 7. Correlation Tables of Economic Variables with Fiscal Measures

Variables	Export	Unemployment Rate	Exchange Rate	CPI	Interest Rate	Industrial Production
Emergency Fiscal Measures	0.3084***	0.3989***	0.3016	-0.2291	-0.1032	0.0120
Deferrals	0.2176	-0.1012	-0.4436***	-0.1241	0.2169	0.0114
Liquidity Provision and Credit Guarantees	-0.0913	-0.4213***	-0.3660**	0.1360	0.4163**	-0.4381***

** is shown significance at the 1% level.*

- ***Emergency Fiscal Measures***

According to the correlation table given in Table 7, the only significant correlation coefficients are between emergency fiscal measures, exports, and unemployment rates while the rest are statistically insignificant. There is approximately a 13% positive correlation between emergency fiscal measures and exports, which can lead us to say that emergency fiscal measures can increase exports. However, there is also a positive correlation of 40% between emergency fiscal measures and unemployment. As seen in Figure 6, although these packages have a positive effect on exports, they do not reduce unemployment.

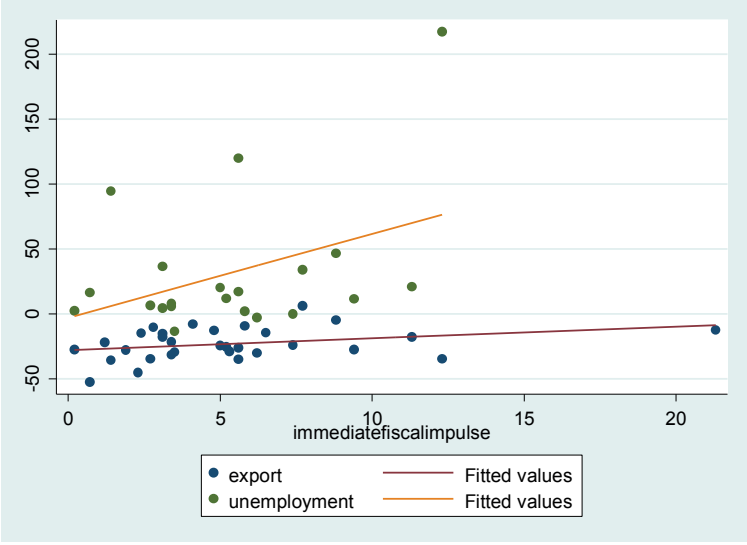


Figure 6. Emergency Fiscal Measures Dispersion Chart

- ***Deferrals***

As seen in Table 7 and Figure 7, there is a negative correlation of 44% between deferrals and increases in exchange rates. Therefore, deferrals can be said to prevent devaluations of the national currency against the US Dollar.

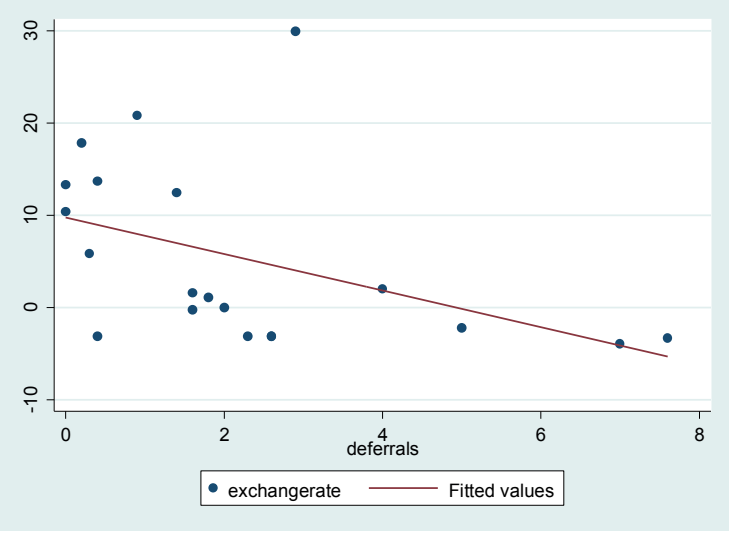


Figure 7. Deferrals Dispersal Chart

Yet no relationship was found between deferrals and the rest of the economic variables.

- ***Liquidity Provision and Credit Guarantees***

Table 7 shows that liquidity provision and credits have a negative correlation with unemployment rates and industrial production while having a positive correlation with interest rates. Although this measure reduces unemployment, it increases interest rates and negatively impacts industrial production. This can be observed clearly in the chart below.

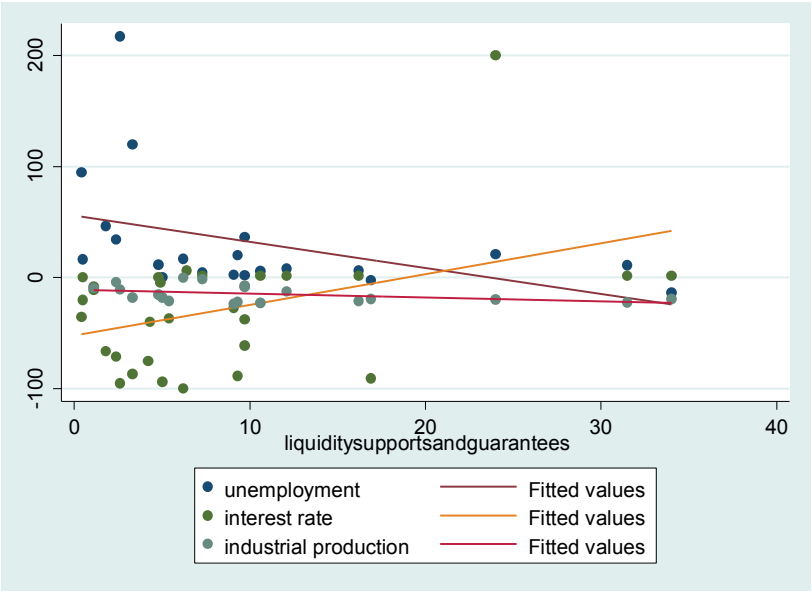


Figure 8. Liquidity Provision and Credits Dispersal Chart

6. Conclusion

The most important terms that combine various aspects of the COVID-19 pandemic are uncertainty and risks that countries face. The state of uncertainty prevails, in terms of human health and other effects of the pandemic. The uncertainties related to economic variables and economic recession risks have increased especially due to the social limitations that aim to prevent the spread of the virus.

Since March 11, 2020, when the World Health Organization announced COVID-19 as a pandemic, every country has been struggling to maintain its social and economic structure. In this process the first duties of the governments are, doubtlessly, the protection of human health and the continuation of healthcare services. Their second duty, then, was implementing fiscal measures in order to mitigate and alleviate the future effects of the economic recession that would arise due to social limitations. While nation-states created different fiscal measure

packages according to their social and economic structures, it was possible to categorize these into three groups. The first fiscal measures as an expansionary fiscal policy has been additional government expenditure, the second being the deferral of contributions and taxes, and the third being export guarantees and liquidity provision and credits from national development banks.

Emergency fiscal measure packages are money spent by governments to stabilize the economy and elevate stagnation in the short run. Since these expenditures require additional funding from outside the budget, they can lead to financial difficulty and budget deficits. According to empirical results, the emergency fiscal measure packages adopted by nation-states in this process led to the resurgence in exports and helped suppress stagnation. In the short run, emergency measure packages do not have a significant effect on other variables. Also, in the short run, they have not had a positive effect on unemployment rates, yet the continuation of the emergency measure packages is anticipated to compensate the stagnation process in the long run.

Another fiscal measure has been deferrals. Deferrals of tax payments and social security contributions have a temporary effect on the deficit and debt and aim to provide liquidity to taxpayers. Social security contributions, certain taxes, debts, and bills have been deferred in order to reduce the burden on companies. Although deferrals create a financing need today, the government will eventually be repaid in the future. The results of the analysis show that deferrals were not related to unemployment in the short run and only found to be negatively related with interest rates. This measure is also expected to affect other economic variables in the long run.

The liquidity provision and credits for households and companies aim to provide funding to the private sector, usually by creating credits and equity. While companies create financial space for themselves, the way these credits and provision are used is also important. According to our analysis, these liquidity provisions and credits help to lower unemployment rates and interest rates. However, they are not helpful in increasing industrial production in the short run.

Our analysis aimed to emphasize the short-term effects of fiscal measures on some economic variables for the time being, using the changes that occurred from January to May or June 2020. Although all these fiscal packages aim to improve the economy, their effects are not always visible in the short run, and long-term effects for a 1 to 2-year period remain uncertain. Fiscal measures are expected to have a positive effect on economic measures while increasing budget deficits. According to IMF and OECD estimates, national budget deficits

will be far more than anticipated. The uncertainty of the duration of the pandemic sustains economic burdens and uncertainty. Among the three categories of fiscal measures, the category that has the highest effect on economic variables is liquidity provisions and guarantees. According to the results of the analysis, liquidity provisions and guarantees are effective in reducing unemployment rates, reducing interest rates, and increasing industrial production in the short run. It is observed that developed countries such as Germany, France, Italy, Japan, and England rely heavily on liquidity provisions and guarantees. Considering that emergency fiscal measures and deferrals will inflame budget deficits and financial problems even further and that they have a weaker effect, our analysis concludes that it will be better to rely on liquidity provisions and guarantees in the short run. For Turkey, it is possible to say that the government chose the right path by allocating the highest share of its GDP for liquidity provisions and credits among these three packages, yet the long-term effects of each fiscal measure package remains uncertain and will be monitored.

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Appendix

Table 8. Share of Financial Measures in GDP (%)

Country	Emergency Fiscal Measures	Deferrals	Liquidity Provision and Credit Guarantees
Albania	1.2	-	1.7
Argentina	2.8	0.0	2.0
Australia	8.8	-	1.8
Bangladesh	1.0	-	-
Belgium	3.4	2.6	12.1
Brazil	6.5	2.9	5.4
Bulgaria	1.7	0.5	4.0
Canada	5.6	4.0	3.3
Chile	7.7	1.6	2.4
China	4.1	1.6	0.5
Colombia	1.4	0.0	0.4
Czech republic	5.0	-	9.3
Denmark	5.8	7.6	9.7
Egypt	1.7	-	0.1
Ethiopia	1.8	-	0.6
Finland	3.1	2.3	7.3
France	2.7	2.6	16.2
Georgia	4.0	-	0.0
Germany	9.4	-	31.5
Ghana	0.5	-	0.3
Guinea-Bissau	2.0	-	2.2
Honduras	2.2	-	2.1
India	1.2	0.3	4.9
Indonesia	2.4	-	1.1
Italy	3.5	0.4	34.0
Japan	11.3	5.0	24.0
Kazakhstan	2.1	-	2.9
Kenya	0.5	0.2	-
Korea	3.1	1.8	9.7
Mauritius	1.7	-	0.9
Mexico	0.7	0.2	0.5
New Zealand	21.3	-	4.2
Nigeria	0.4	-	-
Norway	5.6	-	6.2
Pakistan	2.0	1.2	-
Peru	8.1	1.5	8.9
Philippines	2.2	-	1.0
Poland	7.4	-	5.0
Romania	1.6	-	3.1
Russia	1.9	0.4	1.1
Saudi Arabia	2.3	2.0	0.9
Senegal	2.8	0.1	0.5
Singapore	15.4	-	4.2
South Africa	5.3	0.9	4.3
Spain	3.4	-	10.6
Sweden	5.2	7.0	4.8
Switzerland	4.8	-	6.4
Thailand	8.2	-	3.6
The Netherlands	4.1	4.3	4.1
Tunisia	1.7	0.2	1.1
Turkey	0.2	1.4	9.1
United Arab Emirates	2.1	-	-
United Kingdom	6.2	-	16.9
United States	12.3	-	2.6
Vietnam	1.1	2.4	0.1

Table 9. Change for Economic Variables for Countries

Countries	Export	Unemployment Rate	CPI****	Interest Rate****	Industrial Production
Australia	-4.89	2.0	-	-0.5	-
Austria	-9.04	0.9	0.2	-0.0	-24.3**
Belgium	-21.35	0.4	-0.2	-0.0	-14.2
Canada	-34.82	6.7	-1.0***	-1.5	-19.5**
Chile	-3.93	2.8**	0.2	-1.3	-4.2
Colombia	-35.77	10.2	0.0	-1.5	-
Czech Republic	-24.18	0.4*	0.8	-2.0	-24.7
Denmark	-9.32	0.1	-0.4	0.2	-7.8
Estonia	-14.95	1.3**	-0.9	-0.0	-20.4
Finland	-15.15	0.3	-0.4	-0.0	-2.0
France	-34.80	0.5	0.3	-0.0	-21.8
Germany	-27.45	0.4	1.0	-0.0	-22.7
Greece	-29.41	-1.5*	0.3	-0.0	-6.3
Hungary	-29.65	0.5**	0.5	0.5	-32.8
Iceland	-15.55	0.6	1.9	-1.8***	-
Ireland	8.31	0.8	-0.2	-0.0	-3.1
Israel	-14.07	0.8	-0.3	-0.2	-
Italy	-29.54	-1.2	0.1	-0.0	-20.0
Japan	-17.64	0.5	-0.3	-0.0	-19.4
Korea	-17.66	1.2	-0.9	-0.8	-9.1
Latvia	-14.17	2.9	-0.5	-0.0	-7.9
Lithuania	-14.22	3.0	-0.5***	-0.0	-1.6
Luxembourg	-8.86	1.9	-0.4	-0.0	-21.2
Mexico	-52.45	0.6	-0.2	-1.2	-
Netherlands	-16.23	0.7	0.9	-0.0	-8.1
New Zealand	-12.59	-	-	-0.7	-
Norway	-25.86	0.6**	0.9	-1.5	-0.5
Poland	-23.95	0.0	0.6	-1.6	-22.4
Portugal	-32.73	-0.9	2.2	-0.0	-25.4
Slovak Republic	-31.64	0.4	0.2***	-0.0	-34.6
Slovenia	-22.10	0.6	-0.9***	-0.0	-23.8
Spain	-31.38	0.8	0.4	-0.0	-23.8
Sweden	-25.24	0.9	0.8	0.0***	-17.1
Switzerland	-19.96	-	-0.2	-0.0***	-
Turkey	-27.45	0.3*	6.8	-2.5***	-28.3
United Kingdom	-30.11	-0.1*	0.2	-0.6	-19.4
United States	-34.61	9.8	-0.4	-1.5	-16.2
Argentina	-10.20	-	-	-	-
Brazil	-14.57	-	-0.4	-1.6	-20.5
China	-7.93	-	-3.4	0.0***	-
India	-21.92	-	0.8***	-0.3***	-
Indonesia	-14.93	-	0.5	-0.5	-
Russia	-27.82	-	2.0***	-0.5***	-11.9
Saudi Arabia	-44.94	-	-0.2***		-
South Africa	-28.64	-	-0.3**	-2.5	-

* Since the last announced data belongs to March, February-March difference was calculated.
** Since the last announced data is for April, the February-April difference was calculated.
*** Since the last announced data belongs to May, the difference between February and May was calculated.
**** Since June data is available for many countries, June was taken as the last month, the difference between February and June was calculated.

CHAPTER 2.2.

PUBLIC DEBT IN COVID-19 PANDEMIC CRISIS IN EUROPE AND THE TOXIC LEGACY OF THE EUROPEAN DEBT CRISIS

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Abstract

Economic crises and pandemics began to appear more frequently and more violently with the mobility of people and capital brought about by globalization. All these crises have caused financial, economic and social imbalances in many countries. The most important ones of the crises we have witnessed in recent years are the 2008 global crisis and the 2020 COVID-19 pandemic crisis. The European Union member states stand out both through the channels affected by these crises and through their own unique solutions within the Union. However, most of the Union's member states are moving from the global crisis to the present to a highly indebted future. PIIGS (Portugal, Ireland, Italy, Greece, Spain) countries are the most important actors in the transformation of the global crisis into a debt crisis, especially in Europe. The monetary and fiscal policy measures taken by these countries did not reduce the debt stock, nor did they lose momentum in the growth rate. These economies have been heavily affected by the COVID-19 pandemic crisis, which has spread to all countries of the world since the early days of 2020, and have been caught up in the pandemic crisis by the high public debt of the global crisis and its toxic legacy. They continue to face economic shocks due to quarantine practices and travel restrictions taken to prevent the spread of the pandemic.

This study aims to reveal how the toxic legacy of Europe's debt crisis that emerged after the global crisis and is still in, can lead the financing need to be created by the COVID-19 pandemic to a stalemate and which in such an environment, new borrowings can be a source of instability and danger, and to evaluate this debt crisis together with the measures taken against the crises.

Keywords: COVID-19, pandemic crisis, European debt crisis, public debt, Euro Area, PIIGS countries, European Central Bank.

1. European Union and Euro Area Overview

The European Union was established in 1951 as the European Coal and Steel Community (ECSC) and the first seeds of the Union were sown. In 1951, the founding countries Belgium, Germany, France, Italy, Luxembourg and the Netherlands were added to Denmark, Ireland and the UK in 1973, thus the number of member countries, which was 6, rose to 9 with the first enlargement. With the inclusion of Greece in 1981, Spain and Portugal in 1986, the European Union expanded to the south. With the participation of Austria, Finland and Sweden in 1995, the number of members of the European Union increased to 15. In 2004, the European Union realized the "Eastern Europe Expansion" and 10 Eastern European countries joined the union. With the participation of Bulgaria and Romania in 2007 and Croatia in 2013, the number of members of the union reached 28 (Yılmaz, 2013, 77-78). Britain left the European Union with Brexit in 2020, with the Union's number of members reduced to 27.

The ultimate goal of the European Union is political unity. In marching on this goal, it encountered problems in many periods and tried to overcome these problems by making changes in the structure and powers of the establishment treaties and institutions. On 1 November 1993, the Maastricht Treaty was adopted for the member states to create the Economic and Monetary Union (EMU). EMU is a roadmap aimed at harmonizing the economic and monetary policies of the member states with the aim of ensuring the use of the single currency among the member states (Bean, 1992, 31).

According to this roadmap, important steps were taken within the European Union until the EMU transformation, the euro was introduced in 2002 and the Euro Area countries transferred their monetary policies to the European Central Bank (ECB), a supranational institution. The country included in the Euro Area is unable to implement its monetary and fiscal policies independently from the supervision of the European Union. As of August 2020, 8 of the 27 countries participating together are members of the European Union but have not moved to the euro and there are 19 countries in the Euro Area.

In order to move to the Euro and adapt to the economic policies of the Union, European Union countries must meet certain conditions designed to bring their national legislation in line with relevant European Union laws. These conditions are known as the convergence criterion (economic convergence), which is accepted in Maastricht.

These criteria include reference values, which are determined in terms of the budget deficit, public debt stock, inflation rate and interest rate, which member states have to fulfil in order to be included in the Euro Area. These values serve to harmonize the economic

policies of the member states and to ensure fiscal discipline. The reference values referred to in Article 104c(2) of this Treaty on European Communities are:

- 3% for the rate of the planned or actual government deficit to the gross domestic product at market prices,
- 60% for the rate of government debt to the gross domestic product at market prices.

The Stability and Growth Pact was established in 1997 as a structure that follows the economic policies and financial disciplines of the member states of the European Union through these reference values. The Pact is designed to impose sanctions on countries that violate these reference values. In this context, within the framework of the Stability and Growth Pact, the harmonisation of the member states with the reference values is monitored. Under the "deterrent" aspect of the Pact, an "excessive budget deficit procedure" is implemented if there are an unconformity and deviation.

2. The Development of two Major Crises in Europe: the 2008 Global Crisis and the 2020 COVID-19 Pandemic Crisis

The 2008 global crisis and the 2020 COVID-19 pandemic crisis, which affected the whole world, have been on the agenda of economic and social life in a wide variety of ways. Economic and social mobility and integration have increased the spread of both crises and pandemics.

The 2008 global crisis is a global financial crisis that originated in the United States and is considered a "third-generation crisis model"[1]. According to the IMF, the seeds of the global crisis were sown in the early 2000s in an environment of high growth and low-interest rates. High growth and low-interest rates have led to over-optimism and tendency of risk-taking, resulting in various disruptions in the areas of market discipline, financial regulation, macroeconomic policies and global oversight (IMF, 2009, 3).

In a low-interest-rate environment, variable-rate mortgage loans, new financial instruments created, increasing housing demand and artificially increasing house prices have led to problems of adverse selection and moral hazard based on asymmetric information in the market and a price bubble has been created. However, as a result of the inability to repay housing loans, the homes of millions of people were confiscated by the banks, thus increasing housing supply led to lower house prices and then the rate of increase. Due to non-performing loans, financial institutions began to narrow the supply of loans, housing demand and prices

1 Third-generation crisis models are based on the lack of supervision and oversight in financial markets. In addition, asymmetric information-based adverse selection and moral hazard problems are among the most important reasons of third-generation crisis models.

declined further and the bubble began to deflate. Rapid declines in the prices of securities have influenced global investors from every country that have invested in this field, this crisis which started in the money markets largely spread to other developed countries, spreading quickly due to the bandwagon and contagion effect of the crisis.

The effects of the global crisis have not appeared simultaneously. The effects of the crisis on the growth rate, foreign trade volume, capital flow and unemployment rates became visible in 2009. Due to the global crisis, developed countries contracted by 3.5% and the Euro Area by 4.4% in 2009. World GDP also declined by 1.7% (IMF, 2012, 190).

Due to the global commitment of the world economies, the reduction in foreign trade volume amounted to 13% of the GDP of developed countries. The foreign trade volume of developing countries has also shrunk, and foreign direct investments to emerging markets and developing countries decreased by 30% in 2009 compared to the previous year. The global crisis has also reduced portfolio investments, a portfolio investment of $70 billion was raised in 2009 from emerging markets and developing countries, which attracted a portfolio flow of $107 billion in 2007 (IMF, 2013, 170).

Although the effects of the global crisis have decreased over time, another crisis has begun to affect the world by the end of 2019. This crisis was caused by an outbreak of the coronavirus (COVID-19) in Wuhan, China, which caused the World Health Organization to declare a pandemic on March 10, 2020. The countries most affected by the COVID-19 pandemic crisis are the leading countries in total supply and demand sizes and world trade volume. The closure of factories producing high-tech semiconductor consumer products and automotive and heavy industrial products in the Far East, mainly in China and South Korea, has greatly damaged the international supply chain, reducing economic activity. In addition, these effects have increased as a result of public policy measures aimed at social life such as quarantine, travel restrictions and school closures due to increased rates of cases and contagion.

The effects of the COVID-19 pandemic crisis began to be seen simultaneously in 2020, unlike the global crisis. In 2020, the rate of economic shrinkage in developed countries is estimated to be 5.1% and 7.5% in the Euro Area. The decline in world GDP is expected to be by 3% (IMF, 2020).

While the USA, the country where the 2008 global crisis began, had an economic contraction of 3.1% in 2009, China continued to grow by 9.2% in the same year. In China, where the 2020 COVID-19 pandemic crisis began, the growth rate is estimated at 1.2% by 2020, while in the US economic shrinkage is expected by 5.9% by 2020.

Although the economic effects created and spread by the 2008 global crisis have become evident to the present day, the cost of the 2020 COVID-19 pandemic crisis and the extent to which country this cost will still remain a major uncertainty. However, there is a known fact that the impact and depth of the COVID-19 pandemic, which became a global threat in 2020, on each country's economy will differ depending on the financial, economic and social conditions that countries were in during the period of this crisis.

3. Economic and Financial Indicators in Europe before the 2008 Global Crisis and before the 2020 Pandemic Crisis

When the 2008 crisis hit, governments, corporations and individuals defaulted on interest payments. However, government debt defaults are a recurring feature of public finance. These defaults have typically involved low-income and emerging-market economies, although recent cases include advanced-economy sovereigns. Sovereign states have borrowed money for hundreds of years. The sovereign debt was one of the first financial assets ever traded, and continues to comprise a significant fraction of global financial assets. Unlike private debt, sovereign debt is especially difficult to enforce (Kotz'e, 2020, 1).

Figure 1 compares the growth rates in Europe between 2003 and 2007, the period in which the global crisis has not yet emerged, and the growth rates between 2015-2019, the period in which the effects of the global crisis have decreased and the pandemic has not yet emerged.

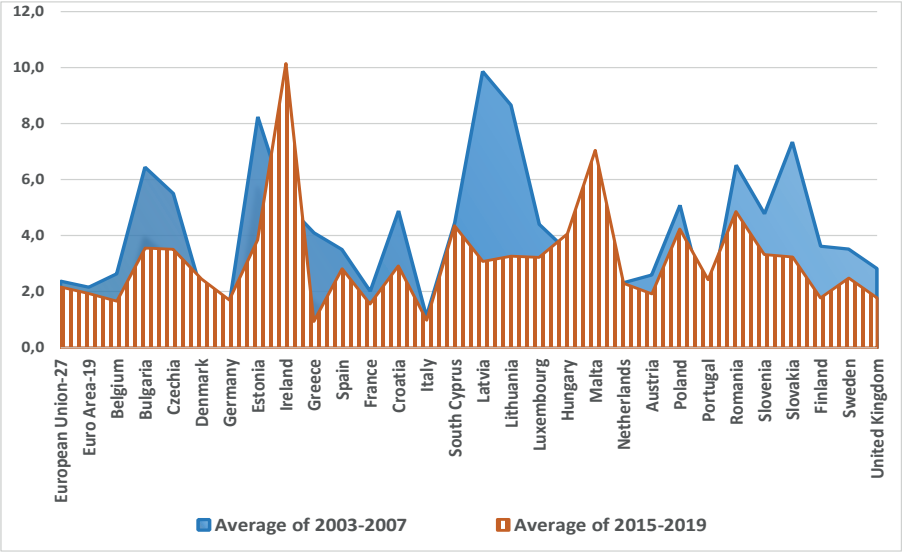


Figure 1. Average growth rates before the global crisis (2003-2007) and before the pandemic crisis (2015-2019)
Source: European Commission, Economic and Financial Affairs, AMECO database.

Figure 1 shows that the effects of the 2008 global crisis still exist on growth rates in the European Union-27 and Euro Area-19 before the pandemic crisis. For example, the growth average of the European Union-27 between 2003 and 2007 was 2.4%, while the 2015-2019 average was 2.2%. In the Euro Area-19, growth averaged 2.2%, down from 1.9%, and countries were caught up in the pandemic crisis with unsatisfactory growth figures.

As it is known, global income has been increasing at very low levels since the 2008 global crisis. Before the pandemic crisis, growth rates in the world economy had begun to fall. Global growth rates stood at 3.9% in 2017, 3.6% in 2018 and 2.9% in 2019 (IMF, 2020). Especially in 2018-2019, that is, a few years before the pandemic, attention has begun to be drawn on the world's long-term problems. There are many reasons for the downward change in growth rates in recent years. These include street protests in France, tensions over the prospect of Britain leaving the European Union without a deal, budget discussions in Italy, the disruption of car production in Germany with the introduction of new emissions standards, consumer and labour weakness in the Euro Area, and trade tensions between China and America.

The five-year growth average before the pandemic crisis is higher than the five-year growth average before the global crisis when compared to both pre-crisis growth rates for Germany, the Netherlands and Denmark, the Union's strong economies. These countries emerged from the global crisis with strength (Figure 1).

In the PIIGS countries, except Ireland and Portugal, the economies of Italy, Spain and Greece appear to have lost their growth successes before the global crisis (Figure 1).

Malta and Hungary, as the Union's smaller economies, managed to rise above the global pre-crisis growth average before the pandemic crisis (Figure 1).

Most of the countries (Czechia, Estonia, Latvia, Lithuania, Poland, Slovakia and Slovenia), included European Union's "Eastern European enlargement" in 2004, are quite far from the global pre-crisis growth rates before the pandemic crisis (Figure 1). Already Latvia, Lithuania and Estonia are economies that shrank by around 15% in 2009. These peripheral countries of the Union faced a pandemic crisis before they had the opportunity to compensate for the export loss caused by the global crisis. However, the small volume of national revenue of the mentioned countries causes them to be significantly affected by global crises, while the low population density suggests that they will be less affected by the pandemic crisis as a health crisis.

Since 2009, the 2008 global crisis has turned into a debt crisis in the European Union countries and in the Euro Area countries in particular. In addition, a complex debt network has been established between the countries of the European Union. While the debt of developed countries increased in 2008-2009, important developing economies have joined them in the period up to today. The number of countries where the Stability and Growth Pact has implemented an "excessive budget deficit procedure" rose to 22 in 2009, and the "deterrent" aspect of the pact was not sufficient.

Figure 2 compares the public debt stock/GDP ratios between 2003 and 2007, the period in which the global crisis has not yet emerged in Europe, and the public debt stock/GDP rates between 2015-2019, the period in which the effects of the global crisis have decreased and the pandemic has not yet emerged. Figure 2 clearly shows that the effects of the 2008 global crisis still exist on the debt burden of the period before the pandemic crisis of the European Union-27 and Euro Area-19. For example, the public debt stock/GDP average of the European Union-27 between 2003 and 2007 was 66%, the average of 2015-2019 climbed to 83%, the Euro Area-19 rose from 69% to 90%, and countries were caught up in the pandemic crisis with a high level of the public debt burden.

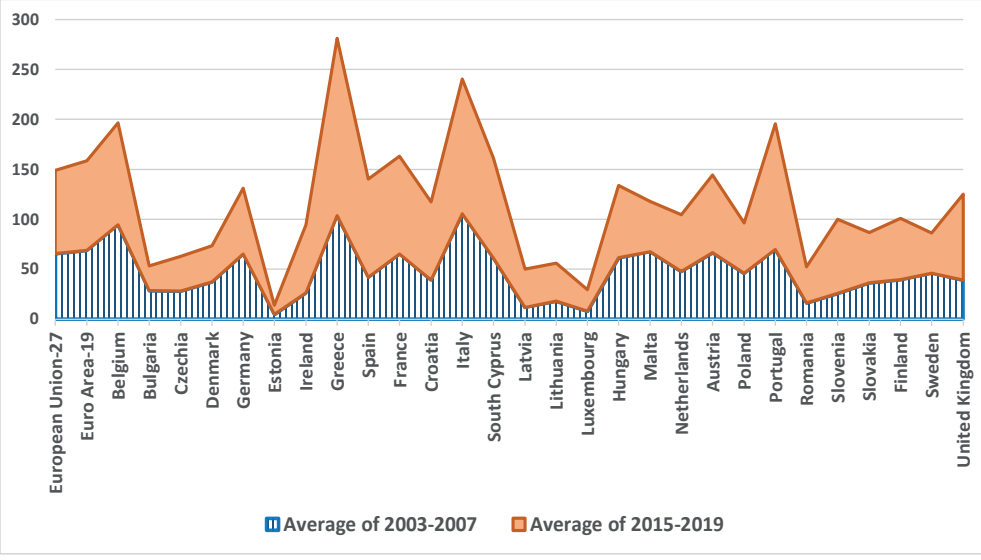


Figure 2. Average public debt stock/GDP before the global crisis (2003-2007) and before the pandemic crisis (2015-2019)
Source: European Commission, Economic and Financial Affairs, AMECO database.

It is a fact that the global crisis has created a debt problem in Europe. Especially, the classification of PIIGS countries is evidence of the existence of a debt crisis that has not previously emerged in Europe like this. Although these countries have overcome various crises, their indebtedness remains.

Before the global crisis, Belgium, Greece, Italy, Southern Cyprus and Portugal violated the public debt stock/GDP ratio, one of the Maastricht criteria for Union member and candidate countries, not to exceed 60%. These countries were also noted for their high public debt burdens before the pandemic crisis.

The average five-year public debt stock/GDP rate before the pandemic was 178% of Greece, 135% of Italy, 126% of Portugal and 98% of Spain from the PIIGS countries. As public expenditures of these countries continues to increase with the pandemic crisis, it seems unlikely that debt burdens will decrease (Figure 2).

The average five-year public debt stock/GDP of Germany and France, one of the Union's strong economies, before the global crisis, has reached a level that would violate the Maastricht criteria. Germany's public debt stock/GDP rate was unchanged before the pandemic, while France's violation continued (Figure 2).

Public debt burdens of the periphery countries that joined the union with "Eastern European enlargement" continued to be low compared to other developed countries in both pre-crisis periods (Figure 2).

4. Pandemic Crisis Overshadowed by Debt Crisis in Europe

One of the key points that distinguish the 2008 global crisis from the 2020 COVID-19 pandemic crisis relates to the duration of the impact and costs of crises on the economy. Although the global crisis emerged in the USA towards the end of 2007, developed and developing economies continued to grow in 2008. While the impact of the global crisis on growth rates emerged in 2009, on the contrary, the COVID-19 pandemic crisis affected the economy simultaneously.

Therefore, in Figure 3, 2009 is taken into account to see the impact of the global crisis on growth rates, while 2020 is taken into account to see the impact of the pandemic crisis on growth rates. Although a contraction in global income is expected for 2020, what quarter of 2020 the largest contraction will occur depends on the period when the outbreak peaks and the time and size of the second wave.

The European Union economies, which contracted by 4.3% due to the global crisis in 2009, are expected to contract by 7.4% due to the pandemic crisis of 2020. The expectation for contraction for the Euro Area is 7.7% (Figure 3).

The former Eastern Bloc countries, which were the most shrinking economies in 2009 after the start of the 2008 global crisis, are less likely to be affected by the pandemic crisis than by the global crisis. These economies are expected to contract by an average of 7% in 2020 (Figure 3).

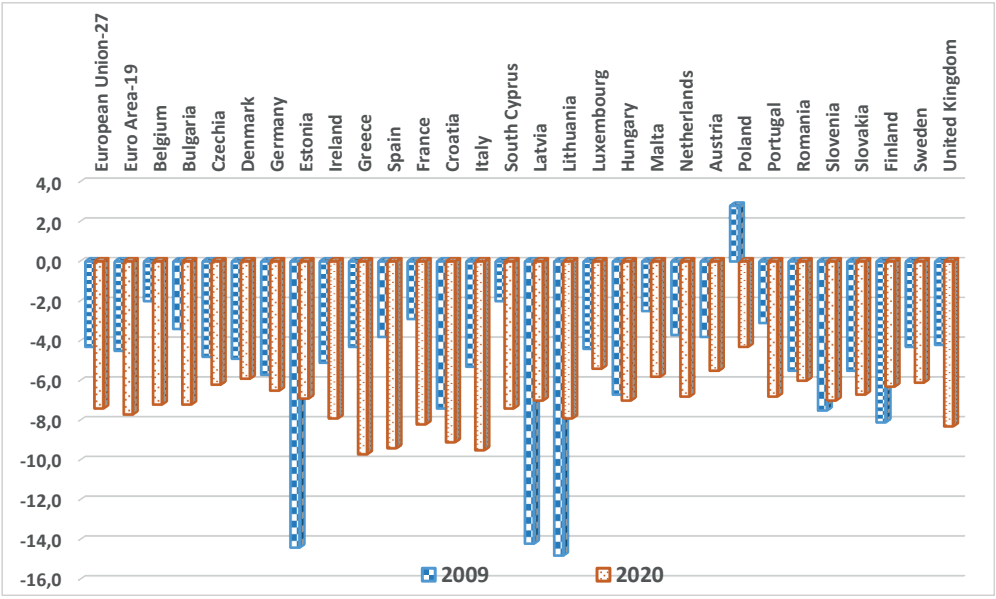


Figure 3. Growth rates
Source: European Commission, Economic and Financial Affairs, AMECO database.

According to Figure 3, the countries most affected by the pandemic crisis will be Greece, Italy, Spain and France, with the highest public debt stock/GDP rate. The share of tourism among the growth dynamics of these countries is high, and the impact of travel restrictions, insecurity and quarantine practices on growth will be negative.

Figure 4 can be viewed as an indicator of the impact of the pandemic crisis on economies. The nature of the pandemic crisis triggered a sudden and substantial rebalancing of portfolios in terms of more liquidity and lower leverage. For this portfolio change, investors all wanted to take similar transactions, putting pressure on market maker financial intermediaries, and associated with a common line of cash. This ran the risk of forced fire sales in many asset markets, illiquidity spirals and the discontinuities associated with market freezes (Lane, 2020).

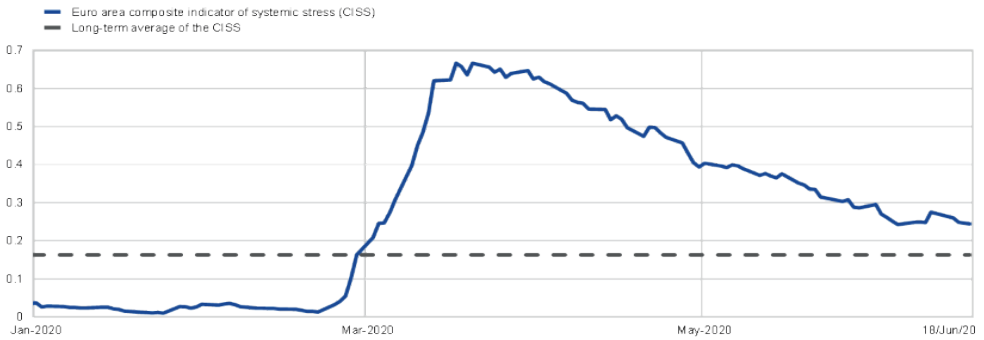


Figure 4. Euro area composite indicator of systemic stress (CISS) (%of annum)
Source: Lane, 2020.

Governments have the opportunity to achieve their goals of increasing social welfare, such as economic stability, economic growth and income redistribution, using public expenditures within the scope of expansionary fiscal policy practices. This is because public expenditures have economic effects on the overall level of production, income distribution, employment and prices. Among the expansionary fiscal policy measures implemented in times of crisis, increasing types of public expenditures and tax rate deductions are added to agenda. The inevitable consequence of this practice is large budget deficits. If austerity policies are not implemented immediately after the first effects of the crises are mitigated by these measures taken by governments, a vicious cycle begins in which budget deficits feed public debt.

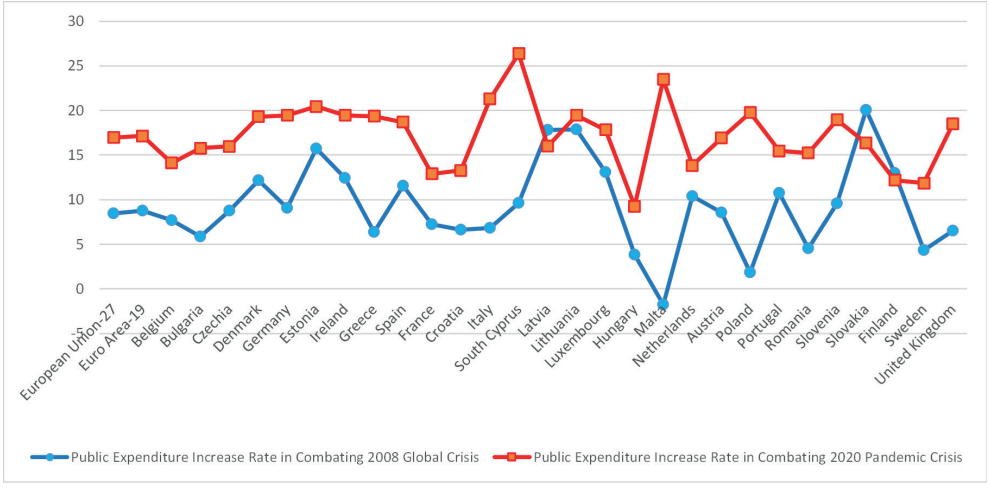


Figure 5. Public expenditures increase rate in fighting 2008 global crisis and 2020 pandemic crisis (comparison to the previous year)
Source: European Commission, Economic and Financial Affairs, AMECO database.

Figure 5 evaluates the increase in public expenditures created by the global crisis and pandemic crisis in European Union countries. In this context, the rate of increase in public expenditures during the 2008 global crisis (2008 and 2009) and the public expenditures growth rate against the 2020 pandemic crisis (2019 and 2020) compares.

The increase in public expenditures for the pandemic crisis across the European Union is twice the increase in public expenditures for the global crisis. In the fight against the global crisis, the average rate of increase in public expenditures in the European Union-27 was 8.5%, while in the pandemic crisis it was 17% (Figure 5). It is because public expenditures increased against the pandemic crisis differs from the global crisis in terms of content. One of these difference is that public social expenditures are increased to prevent the economic contraction caused by quarantine and social distance. The other difference is that public healthcare expenditures are increased due to treatment and vaccination efforts to restore the health of millions of people.

In contrast to this general view of Europe, the level of public expenditures increased in Italy and Spain, which were most affected by the pandemic crisis, compared to the previous year. For Italy, this rate of increase is 21% and for Spain, it is 18%. In addition, Germany, Denmark, Ireland, Greece and Southern Cyprus appear to have chosen to use public resources heavily to counter this crisis (Figure 5).

Despite taking the highest level of measures against the 2008 global crisis with increased public expenditures, some countries did not change their public expenditures levels much during the pandemic crisis. These are the countries that have joined the union with the "Eastern European enlargement", where state interventionism is common in their history (Figure 5).

Budget deficits are inevitable when increased public expenditures cannot be financed by adequate tax revenues. According to the vicious cycle of budget deficit-public debt-interest expenditure, a country borrowing for budget deficits will face new budget deficits in an environment of high indebtedness. Therefore, high indebtedness is not only a result of budget deficits but also a cause. According to the Maastricht criterion for budget deficits, the rate of budget deficits for member and candidate countries of the European Union to the GDP of the country should not exceed 3%, and the rate of public debt stocks to the GDP of the country should not exceed 60%.

Both the existence of the debt crisis in Europe and the toxic legacy of the high indebtedness encountered during the pandemic crisis can be clearly seen from both Figure 6 and Figure 7. It can also be looked at Figure 8, where the toxic legacy of the indebtedness of PIIGS countries is closely examined.

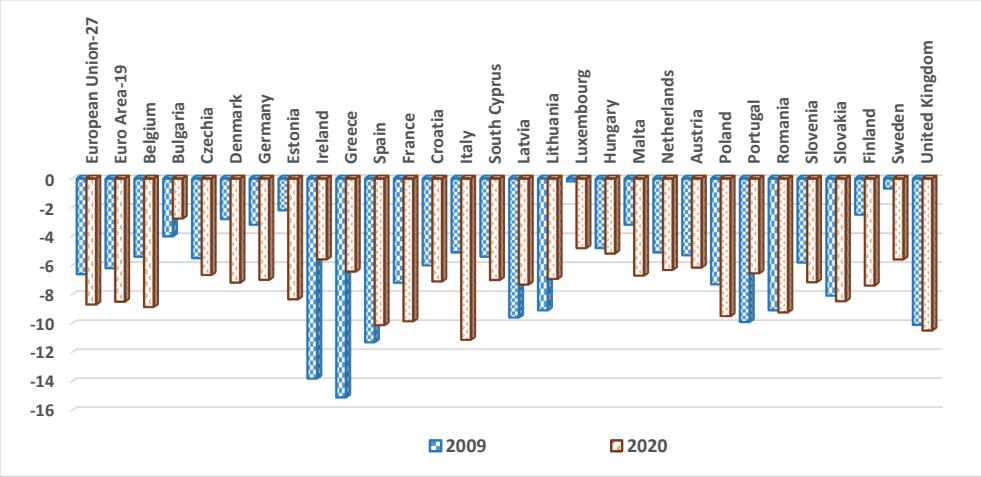


Figure 6. Budget deficits
Source: European Commission, EUROSTAT database.

Figure 6 covers budget deficits in Europe following the global crisis and pandemic crisis. Looking at the average budget deficit/GDP rate of the European Union-27 and Euro Area-19, it is understood that the Maastricht criterion for the budget deficit has been violated since 2009. Even in the pandemic crisis across Europe, budget deficits have increased by at least 2 points.

Germany and France, one of the Union's strong economies, increased the rate of budget deficits/GDP after the global crisis and continued to violate the Maastricht criterion in the pandemic crisis (Figure 6).

Estonia, Luxembourg, Denmark, Finland and Sweden were among the countries that violated the criterion with the pandemic crisis, although they did not compromise on budget discipline despite the global crisis (Figure 6).

After the 2008 global crisis, the rate of budget deficit to GDP of four of the PIIGS countries (Ireland, Greece, Portugal and Spain) was above 10%. With the pandemic crisis, the rate of budget deficits to GDP is expected to be lower than the global crisis (Figure 6 and Figure 8). However, even as a result of this decline, the rate will be above the Maastricht criteria.

In Italy (one of the PIIGS countries), the budget deficit/GDP was 5% with the 2008 global crisis, will reach 11% in 2020 with the pandemic crisis (Figure 6 and Figure 8). With this rate, Italy is the country with the worst financial discipline in the Union.

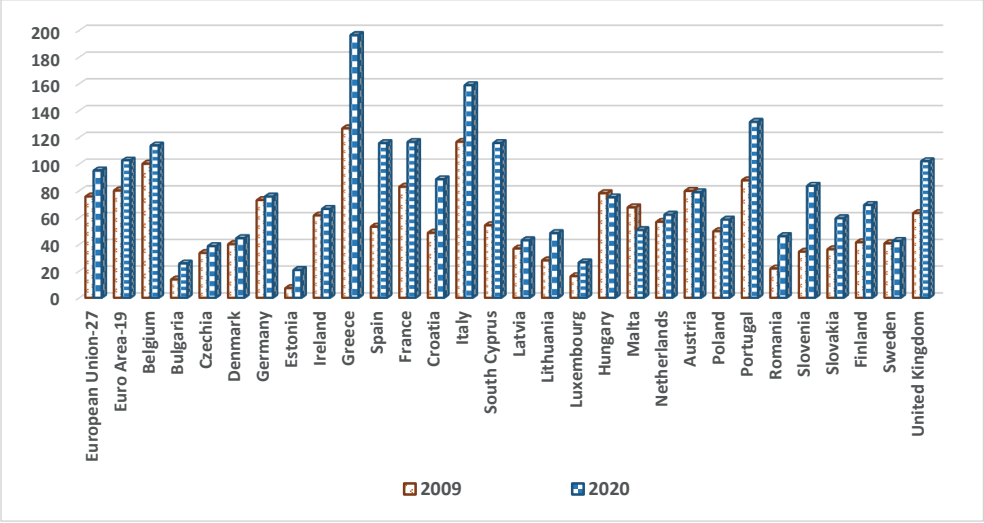


Figure 7. Public debts
Source: European Commission, Economic and Financial Affairs, AMECO database.

Figure 7 shows that the Maastricht criteria for the average public debt stock/GDP rate of the European Union-27 and Euro Area-19 have been violated since 2009. According to the criteria, the rate of public debt stock to GDP should be at most 60%. In 2009, the average European Union-27 public debt stock /GDP rate increased from 76% to 95% with the pandemic crisis in 2020, and the Euro Area-19 average increased from 80% to 103%. Therefore, the devastation of the 2008 global crisis on budgets has progressed over the past 10 years until the pandemic crisis.

Another country that is one of the founders of the Union, although its name is not mentioned much in the European debt crisis, is France. With the global crisis of 2008, it violated the Maastricht criterion on the public debt burden, which it had previously complied with. In the run-up to France's pandemic crisis, the public debt stock/GDP rate is expected to rise steadily and rise to 115% in 2020 (Figure 7).

The public debt burdens of small financially disciplined economies such as Bulgaria, Czechia, Estonia, Lithuania, Latvia, Romania and Slovakia, which joined the European Union with "Eastern European enlargement", are in line with the Maastricht criterion (Figure 7).

With the impact of the 2008 global crisis, Italy and Greece first started to attract attention with their public debt burdens. The increase in the debt burdens of these two countries was not halted until 2013. On the other hand, the public debt burdens of Spain, Ireland and Portugal almost exploded in 2010 and they demanded one after another to rescue their

economies. Italy and Greece's public debts are in a race to rise. Spain's public debt stock/GDP rate has increased by 115% over the past 10 years. So the public debt burdens of PIIGS countries that appeared in 2009 are "just the tip of the iceberg".

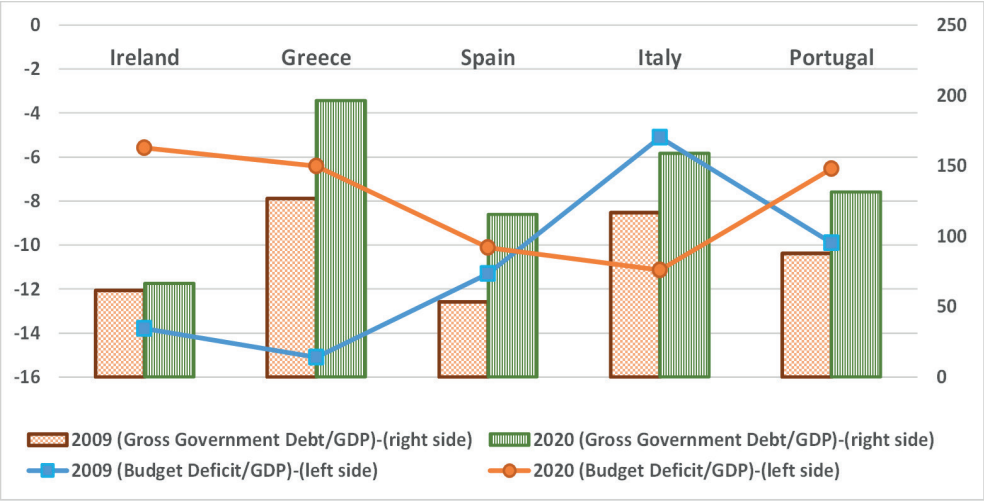


Figure 8. Toxic debt in Europe
Source: European Commission, Economic and Financial Affairs, AMECO database.

It is estimated that of the PIIGS countries, Greece's public debt stock/GDP rate will increase from 127% in 2009 to 196% during the pandemic crisis. For Italy, this rate will climb from 117% to 159% (Figure 7 and Figure 8). According to AMECO projections, these countries' debt burdens could decline by only 3-4 points in 2021. In addition, the economy's response to the health crisis and the World Health Organization's expectation of a second wave of the outbreak could change the outlook.

The public debt stock/GDP rate of Ireland, which was considered a PIIGS country during the European debt crisis with the 2008 global crisis, declined rapidly after the 120% level reached in 2013. Ireland has managed to eliminate the effects of the crisis with its 25% growth rate in 2015, budget surpluses achieved in the following years, and is close to providing the Maastricht criterion in terms of debt burden (Figure 7 and Figure 8). Therefore, Ireland may no longer be among the PIIGS countries at the center of the European debt crisis. Belgium, however, has been conspicuous by a public debt burden it has been unable to reduce since 2009.

As can be seen, Europe in general and PIIGS countries in particular are in a very important debt crisis. They still bear the debt burden of the global crisis in 2020, when the pandemic crisis began. It has been caught up in the pandemic crisis by budgetary in disciplines. They

have not been able to achieve success in the 10 years leading up to the pandemic crisis in the fight against these adversities of the 2008 global crisis.

5. Rescuers and Rescue Operations of European Economies against Global Crisis and Pandemic Crisis

5.1. European Central Bank (ECB), European Commission - IMF and Stability Mechanisms

Each country's central bank is a generous access point to funding opportunities. Therefore, the existence of the bank is an assurance against market instability and its risks in this direction. It provides this assurance through asset purchases and interest rate policy.

ECB aims to provide more liquidity to the system by buying indebted countries' bonds from the secondary market. It also pulls interest rates to low levels by implementing expansionary monetary policy. The ECB's operational framework includes: open market operations, standing facilities, minimum reserve requirements for credit institutions. The ECB also implements various non-standard monetary policy measures, such as an asset purchase program, to complete the regular activities of the Euro system.

These tools aim to enable banks to overcome the liquidity problem, to create a competitive advantage in foreign trade thanks to the falling exchange rate and to help countries exit the debt spiral. Both the low-interest rate and the liquidity provided to the system prevent the depreciation of the Euro in the medium term and allow the debtor countries to regain their competitiveness and grow through exports.

The European Commission is both the executive body of the Union and the commission that prepares its budget. The commission works on behalf of member states as an institution that looks after the general interests of preventing anticompetitive practices and ensuring viability for financial markets.

There are also financial assistance and stability mechanisms and funds created in the European Union and the Euro Area to fight the crisis and to take measures against future crises. European Financial Stability Mechanism (EFSM) was created in 2010 to provide financial assistance to member states facing financial problems when the debt crisis in Europe began. EFSM's funding size is €440 billion, with resources from the IMF totaling €750 billion. In the event that member states are unable to borrow from the markets in the appropriate amount and cost, it is possible to take advantage of the EFSM fund provided that the IMF and the European Commission jointly agree to an economic programme which they consider appropriate.

As EFSM was designed as a temporary tool, it was replaced by a continuous mechanism, the European Stability Mechanism (ESM), as of mid-2013. ESM is a continuation of EFSM and has a capital base of €700 billion.

Just like the EFSM, the conditions to benefit from this mechanism are subject to strict conditions such as the implementation of economic adjustment programmes agreed upon by the Commission, the IMF and the requesting member state. The debt tranches are released taking into account the reports prepared on the country's performance. In order to reduce the cost of borrowing, the ESM also engages in financial activities such as purchasing the bonds of member states in financial difficulty where necessary (EU General Secretariat, 2011, 16).

5.2. Rescue Operations against the 2008 Global Crisis

The European debt crisis was identified with the Greece debt crisis until late 2010. However, it was later understood that the problem was not limited to Greece. Markets and investors have become concerned about the PIIGS countries, and the European Union has engaged in rescue operations within the Union.

5.2.1. ECB's Operations against Global Crisis

When the bankruptcy began in the USA in August 2007, the central banks of the UK and Sweden, along with the ECB, decided to cut interest rates. In May October 2008, the ECB cut interest rates from 4.25% in the immediate aftermath of the crisis to 1% in May 2009. In addition, some "non-standard" measures have been taken in the style of credit support: these are (Cour-Thimann and Winkler, 2013, 11-12):

- Fixed-rate Full Allotment: the ability of financial institutions in the Euro Area to have unlimited access to ECB liquidity by showing sufficient collateral.
- Extension of the Maturity of Liquidity Provision: The maximum maturity of the longer-term refinancing operations (LTROs) was temporarily extended.
- Extension of Collateral efficacy: Overcoming liquidity crunch if interbank borrowing stops.
- Currency Swap Agreements: The ECB's reciprocal currency agreements with the FED to avoid falling into the dollar squeeze during the crisis.
- Covered Bond Purchase Programme (CBPP): Providing financing to banks and financial institutions to keep the mortgage bond market alive in the Euro Area.

Thanks to these measures, on November 30, 2011, the FED, the ECB and other leading central banks opened clearing lines to direct dollars to European banks. Between July 2009 and July 2010, the ECB bought €60 billion of mortgage bonds in the Euro Area. The ECB set up a Long Term Refinancing Operation (LTRO) in December 2011, pumping €489 billion into European banks for three years. In February 2012, it also commissioned a second LTRO, pumping another €529 billion into European banks. In September 2012, the ECB announced a new Outright Monetary Transactions (OMT) program, promising to buy unlimited amounts of bonds to keep the Euro Area afloat.

5.2.2. European Commission – IMF and Stability Mechanisms against Global Crisis

The "Troika" as a joint structure consisting of the European Commission, the ECB and the IMF has been on the agenda in the fight against the global crisis. The Troika has designed and implemented the mechanism for financial assistance to the countries of PIIGS (Portugal, Ireland, Italy, Greece and Spain) which are in the debt crisis.

The Troika loans were formed by a decision taken by the heads of state and government in the Euro Area on 25 March 2010 to coordinate and contribute mutual lending to Greece, mainly as part of a package financed by the IMF and mostly by the European Union. Thus, the countries that will borrow have entered into different financial agreements with the IMF and ESM.

A total bailout package of €110 billion was announced in May 2010 for Greece, which applied for assistance to the European Union, with €80 billion from the European Union and €30 billion from the IMF, through a joint operation of the European Union-IMF. In September 2010, the second bailout package was commissioned. Ireland signed a bailout package of €85 billion with the European Union and IMF in November 2010, and Portugal €78 billion in April 2011 (EU General Secretariat, 2011, 3).

5.3. Rescue Operations against the 2020 Pandemic Crisis

During March and April 2020, followed by China, the COVID-19 pandemic spread to Europe at a great rate. As of 23 August 2020, 1,733,550 cases have been reported in the EU/EEA and the UK, according to the European Centre for Disease Prevention and Control (ECDC), an agency of the European Union. The distribution of case numbers by country is as follows in summary. 386.054 in Spain, 324.601 in the UK, 258,136 in Italy, 238.002 in France and 232,864 in Germany. As of 23 August 2020, 180.642 deaths have been reported in the EU/EEA and the UK. The distribution of the reported number of deaths by country is

as follows: 41.423 in the UK, 35,430 in Italy, 30,512 in France, 28,838 in Spain and 9.269 in Germany (European Centre for Disease Prevention and Control Report, 2020).

In order to ensure that the Union overcomes the crisis against the rapidly advancing pandemic crisis in Europe, the solidarity of the European Union and docking has come to the fore. The European Commission has started to take measures in coordination with ECDC after the World Health Organization reported the outbreak as a high-level pandemic. As part of the supply and storage of medical supplies, many industrial companies have started to produce health supplies. For imports of medicinal products, VAT rates have been reduced and patients will be offered treatment assistance. Within the framework of the decisions taken, the EU provided flexibility in the budgets of the countries. In addition, at the Eurogroup meetings where the ministers of finance of the Euro Area countries, the decision was taken to enact the general exception clause of the Stability and Growth Pact, and in this context, the ECB announced that it would lend €750 billion to countries due to the sectors most affected by the outbreak and the vaccination efforts.

5.3.1. European Central Bank against Pandemic Crisis

After the COVID-19 pandemic, the ECB takes the following measures to support the Euro Area economy (CEPS, 2020):

1- Negative interest rate policy: by lowering interest rates in response to the COVID-19 crisis, the interest rate for banks to lend has been below zero and negative since 2014.

2- Deposit Facility: the rate that banks take to deposit money into the ECB is currently -0.50%. The ECB also controls two other short-term interest rates that banks can borrow from the ECB: the main refinancing operations and the ability to issue marginal lending.

3- Forward guidance: the ECB is expecting that inflation will remain at lower levels until it sees the rate move closer to 2%, offering forward guidance on the future path of interest rates. Such forward guidance on the overnight price puts downward pressure on long-term interest rates.

4- Asset purchases APP (Quantitative Easing or QE): The ECB's Asset Purchase Programme (APP) is part of a package of non-standard monetary policy measures that also includes targeted longer-term refinancing operations, and which was initiated in mid-2014 to support the monetary policy transmission mechanism and provide the amount of policy accommodation needed to ensure price stability. It consists of the corporate sector, public sector, asset-backed securities and third covered bond purchase programmes.

Before the COVID-19 crisis, the ECB was buying about €20 billion each month from government bonds, regional and local authorities' bonds, corporate bonds, asset-based securities and collateralized bonds (APP). These purchases were also controlling inflation. In response to the pandemic crisis, the ECB announced on March 12 that it would receive another €120 billion under the APP.

5- Pandemic Emergency Purchasing Programme (PEPP): PEPP is an asset purchase programme prepared by the ECB as a special response to the pandemic crisis. The ECB launched €750 billion (PEPP) on March 18, which will last until the era of the ECB pandemic crisis is over, but in any case, at least until the end of 2020.

As of June 2020, the PEPP amount is €354.986 million. The monthly net purchase amount in July alone was €85.423 million.

The PEPP is designed in a flexible manner in order to deal with the specific situation caused by the COVID - 19 in a targeted manner will allow for the distribution of fluctuations of purchase and the outbreak of the flows over time, among asset classes and across jurisdictions (ECB, 2020).

The PEPP has a dual role. First, together with the other components of the monetary policy framework, extra asset purchases are an important mechanism to deliver the monetary accommodation required to ensure that medium-term price stability is protected by supporting the economic recovery from the pandemic crisis. Second, the flexible nature of the PEPP across time, asset classes and jurisdictions in an efficient manner designed to fulfil the role of market stabilization, especially in view of the high uncertainty associated with the effects of the pandemic across different asset markets and the individual Euro Area countries (Lane, 2020).

5.3.2. European Commission – IMF and Stability Mechanisms against Pandemic Crisis

The European Commission coordinates efforts and numerous instruments to protect public health against the Coronavirus outbreak in Europe and to reduce the economic and social harms that arise in the European Union. It has engaged several previously created funds in the fight against the COVID-19 pandemic crisis:

1- Recovery and Resilience Facility Fund (RRF): the RRF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between regions. The European Commission wants to support the countries of the European Union with this fund. The support will take the form of up to €310 billion in grants and up to €250 billion in loans.

The facility will be demand-driven Instrument powered by emergency recovery and now Europe, 'EU next generation', amounting to €750 billion, which will temporarily boost the financial firepower of the EU budget by enabling to raise additional financing on financial markets (European Commission, 2020a, 1).

2- Coronavirus Response Investment Initiative (CRII): The European Commission also has a mechanism to support the countries of the European Union with the CRII. Continuation to repair and extend the initiative started and through the cohesion policy has already started delivering crisis response measures the changes brought by the Coronavirus Investment Initiative, while enlarging the scope to cover green, digital, and growth-enhancing investments. By adding €55 billion to the oncoming 2014-2020 cohesion policy programmes. Amounts will be distributed between the proposed allocations for the period 2021-2027 and come on top of EU countries according to their level of prosperity and the socio-economic effects of the crisis (European Commission, 2020b).

3- The European Union Solidarity Fund (EUSF) was established in response to severe floods in Central Europe in the summer of 2002, to respond to major natural disasters and to express European solidarity to disaster-stricken regions in Europe. Since then, it has been used for 80 disasters, covering various catastrophic events such as floods, wildfires, earthquakes, storms and droughts. EUSF is available for the COVID-19 pandemic (European Commission, 2020c).

The European Commission has increased the European Union Budget with new funding available for financial markets for 2021-2024 and commissioned a new bailout of €750 billion. That is why in June 2020 the Union switched to a seven-year budget between 2021 and 2027 under the new Multi-year Financial Framework (MFF). This next-generation budget is designed to be the main tool in implementing the bailout package aimed at reducing the socio-economic consequences of the COVID-19 pandemic. The size of the reinforced MFF is €1,074.3 billion.

Apart from the European Commission, stability mechanisms will also be able to respond to the pandemic crisis. It was decided that ESM resources would be used instead of common debt to the Union countries whose financial structures have deteriorated in the fight against the COVID-19 pandemic.

As the COVID-19 pandemic has plunged most European Union countries into crisis, thanks to the ESM, countries have access to one of the forms of assistance from this fund. Unlike the implementation in the global crisis, in the COVID-19 pandemic crisis, the Union countries that have not passed the euro will be able to benefit from the support of ESM.

The ESM, which has a capital of €700 billion, raises funds in the market by issuing financial instruments (bonds) to meet its targets. During the global crisis, approximately €295 billion of loans were made available. Therefore, ESM still has a capital of €410 billion that can be used in the pandemic crisis.

However, it seems possible that the current structure of the ESM will be changed due to the global pandemic and credit terms will be softened. The financial assistance offered by the ESM during the time of the global crisis was not unconditional. In addition to a preliminary screening, the fund's support depends on signing an agreement with the country requesting the loan and monitoring its compliance with the proposed economic programme on a timetable. If the loan application is accepted, the ESM will be negotiated with the European Commission - in consultation with the ECB and together with the IMF - with the member concerned. As can be seen, countries obtain financing under Troika supervision through bonds issued by the ESM. However, in the COVID-19 pandemic crisis, Troika supervision and compliance with the economic programme during the global crisis should not be exposed to the agenda. It is because this economic program and supervision did not work during the global crisis period.

6. Conclusion

With the European debt crisis, the Union has faced two challenges. The first is crisis management to co-ordinate alignment in the Euro Area, the other is institutional and managerial reform to prevent future crises. A similar debate within the European Union on how to rescue Greece, which has been on the brink of bankruptcy since 2010 due to the European debt crisis, is taking place today in the context of a common struggle against the economic problems caused by the pandemic crisis.

Although the causes of crises are different, the economic and financial effects they cause are similar. In both crises, it was necessary to make operational public policies that would lift the economy and the private sector. Expansionary fiscal policy measures taken to prevent the economy from shrinking further, and using central bank resources, raise a new financing problem.

Many countries in the pandemic crisis have adopted economic revival packages to avoid the supply and demand shock caused by quarantine practices and travel restrictions. Economic revitalization aims to support economic activities by stimulating total demand in the short term. Twice the increase in public expenditures in the European Union in the fight against the global crisis has emerged in the pandemic crisis. But financial revitalization packages bring with them sustainability discussions.

European Union countries that have joined the monetary union have no chance of surviving the debt crisis on their own, as they are unable to implement exchange rates and monetary policies separate from other Union countries. Therefore, in the Euro Area countries, fiscal policy is multiple but monetary policies are unique. As can be seen, full economic integration is not possible in the European Union, and this situation reveals a structure that contains the cause of the problem itself.

In March 2020, as the COVID-19 pandemic crisis put a strain on existing public debt in Europe, Italy, the first center of the pandemic crisis in Europe, called on the European Union to "let's borrow together to get out of the crisis." Although the southern part of Europe supported this call, solving the financing problem has begun to take place within the framework of the ECB and the European Commission.

PIIGS countries (Portugal, Ireland, Italy, Greece and Spain), which were identified with the debt crisis in Europe after the global crisis, also had high public debt burden before the pandemic. Since external debts are an indispensable financing tool of modern government, Europe has had to confront its debt problem.

It is observed that the effects of the 2008 global crisis still exist on the public debt burden of the period before the pandemic crisis of the European Union-27 and Euro Area-19. For example, the public debt stock/GDP average of the European Union-27 between 2003 and 2007 was 66%, the average of 2015-2019 climbed to 83%, the Euro Area-19 rose from 69% to 90%, and countries were caught up in the pandemic crisis with a high level of the public debt burden.

Looking at the average budget deficit/GDP rate of the European Union-27 and Euro Area-19, it is understood that the Maastricht criterion for the budget deficit has been violated since 2009. Even in the pandemic crisis across Europe, budget deficits have increased by at least 2 points.

For this toxic legacy, the public debts of the PIIGS countries, Italy and Greece, are almost in a race to rise. From the global crisis to the present day, Greece's public debt burden has increased by 55%, Portugal's by 50%, Italy's by 36%. Spain's public debt stock/GDP rate has increased by 115% over the past 10 years. Ireland has come close to providing the Maastricht criterion as a public debt stock. Greece and Ireland were able to reduce the budget deficit/GDP ratio, which reached 15% during the global crisis, to 6% in 2020. Italy's budget deficit has climbed to 11% of its GDP with the pandemic crisis.

The European Union offers cheap financing to indebted countries, along with structuring debts, this means averting the crisis for a while. These measures will not be very successful unless the structural problems of these countries, such as unemployment, low competitiveness and lack of social expenditures, are resolved. Employment and labour productivity cannot be improved without a good growth trend. In conditions of debt repayments and tight fiscal policies, high growth performance is difficult to capture. Furthermore, the future economic consequences of the pandemic remain uncertain. As the environment in which uncertainty is increasing continues to surround the outcome of the crisis, the final results in terms of costs may be different.

The Stability and Growth Pact, which acts as an insurance against economic crises in the European Union, has been adopted for the purposes of coordinating national economic policies, ensuring budgetary discipline and monitoring compliance with the Maastricht criteria in all member states. The Pact is primarily focused on budget deficits. The European debt crisis has shown that limiting public debt is the key to achieving stability in the Euro Area to a reliable and sustainable level. Due to the impact of the crisis, the Stability and Growth Pact was revised to ensure coordination and fiscal discipline among the economic policies of the member states. But the Pact has a lack of careful consideration and research into the budget plans and outcomes of European Union countries. Violation of the criteria has been an example to other countries. Violations and sanctions have not been publicly declared by the Pact, nor has the mechanism for swiftly punishing it worked.

The measures put into effect by the economies against the crisis and the debts taken will bring economic revival but will strengthen the crisis-forming imbalances that the Union is in. The best decision to take to address the underlying causes of these imbalances is for states to switch to tax revenues, which are the most basic revenue.

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CHAPTER 2.3.

THE ROLE OF FISCAL SPACE ON RESPONSES TO THE COVID-19 CRISIS

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Abstract

The immediate and multidimensional shocks caused by the COVID-19 pandemic have raised concerns across the world as a result of which almost all countries implemented containment measures and increased fiscal responses significantly. Countries with ample fiscal space have responded swiftly and the size of the fiscal responses were substantial compared to countries with limited fiscal space. The paper argues that to focus solely on fiscal sustainability in countries with limited fiscal space and the determination of the scope and magnitude of fiscal policy tools accordingly carry the risk of a long-lasting recession. It is also emphasized that the process of expanding fiscal space, either for responses to immediate shocks or for development objectives, can also pave the way for decreasing inequality if the fiscal space is generated through the productivity gains in the long run as a result of increasing qualified public health and education services and the restructuring of a more progressive tax system.

Keywords: Fiscal space, fiscal policy, fiscal responses, economic crisis, COVID-19 pandemic.

1. Introduction

When COVID-19 was identified first in December 2019, the general opinion was probably that it would affect only a particular geographical area. However, within a few months, the seriousness of the situation was evident, and the World Health Organization declared it as a global pandemic on March 11th, 2020. (WHO, 2020a). As of August 30th, 2020, there have been 24,854,140 confirmed cases, including 838,924 deaths (WHO, 2020b). The COVID-19 pandemic has been a great shock on a variety of dimensions of human life. Fears related to the health conditions of people and their loved ones were coupled with the economic crisis that has put serious burdens on society. The immediate yet apparently long-term and multidimensional shocks brought by the pandemic have already become such a great concern that almost all countries have implemented containment measures and increased fiscal responses remarkably. The availability of fiscal resources set the framework of these responses; countries with ample fiscal space have had the opportunity to respond quickly and substantially compared to countries with limited fiscal space. Besides, if the limited availability of fiscal space is compounded by deep-seated structural problems, the situation may get tougher for relevant economies. The aim of this paper is neither to review the literature on fiscal space comprehensively nor to provide an alternative definition and a detailed analysis of the term and its measurement; rather, it is to evaluate the role of fiscal space on responses to the COVID-19 pandemic.

Fiscal space as a term is a relatively new one. With the move towards the implementation of rules-based fiscal policies and the predominant consensus on fiscal discipline in conjunction with the implementation of austerity policies following the crises either in emerging markets as it were in the late 1990s and early 2000s or in advanced economies as it was in the case of 2008 Global Financial Crisis, fiscal space has gained prominence, and securing fiscal sustainability has become the core of fiscal policies as opposed to the deficit spending policies of the Keynesian era. Sustainability of public finances and controlling the debt service, especially through the targets of primary surplus or deficit and/or debt rules, have been significant policies urged especially by international financial institutions in countries experiencing a solvency crisis -particularly- in emerging market economies.

Destructive impacts of the COVID-19 crisis have been generally compared to the 2008 Global Financial Crisis; however, economic and social problems associated with this recent crisis have been widely acknowledged to be surpassing the impacts of the previous one. Countries have needed fiscal space first to cope with the immediate effects of the COVID-19 pandemic, including both health-related costs and support to the private sector through the

provision of funds and facilitating tax deferrals due to lockdowns, suspension of activities, and loss of jobs and incomes. However, once the spread of the virus decelerates due to improved treatment conditions and the development of a vaccine, comprehensive and far-reaching discretionary fiscal policies will be needed in most countries, especially in the developing ones. Since the situation seems to be more troublesome in developing countries that already have limited fiscal space as well as limited conditions to expand it, the ways for generating ample fiscal space will remain on the agenda.

The organization of the paper is as follows. Following the introduction, in the second section, the potential economic, social, and fiscal costs of the COVID-19 crisis are evaluated. In the third section, a brief overview of the literature regarding the concept of fiscal space is presented, and the determination of the alternating policies in supporting households and firms under constraints of fiscal space is addressed. In the fourth section, the responses to the crisis and various indicators of the fiscal space in selected countries are analyzed to discuss how much fiscal space these countries encountered during the crisis. Finally, in the fifth section, the concluding remarks are presented.

2. Economic, Social, and Fiscal Costs of the COVID-19 Crisis

The serious impacts of the COVID-19 pandemic on health conditions and even the threat to life are stubborn facts unless an effective treatment of the pandemic is developed; hence, most efforts are primarily diverted to counter the devastating effects, saving lives, and preventing a health crisis. Concomitantly avoiding an economic crisis that would directly affect human well-being through the resulting economic and social costs is another major task. In most cases, countries have had to cope with these aspects simultaneously, as a health crisis would also mean a loss in human capital that would eventually affect economic conditions, and rising layoffs and poverty due to the economic crisis would lead to the increased risk of exposure to infections.

The COVID-19 pandemic first emerged as a global health crisis that cost human lives; therefore, immediate actions were needed to prevent the spread of the virus at least to controllable levels if not to eradicate it completely. Due to the risk of the collapse of health systems, the initial measures that were comprised of social distancing and suspension of activities in the markets except for basically the sectors that supply food and medical stuff were enforced rigorously. Meanwhile, fiscal and monetary policy tools have been implemented within the limits of fiscal constraints. In this context, attempts to mitigate the economic and social costs of the COVID-19 outbreak, including rising unemployment levels and income

losses, have been tried via various fiscal measures such as transfers to households and firms along with tax deferrals and liquidity supports. Government responses in containing the pandemic and efforts towards reducing its economic and social costs also increased fiscal costs, which are revealed through the soaring budget deficits and public debts. Deteriorating economic and fiscal conditions have raised concerns about fiscal sustainability.

The devastating impacts of the COVID-19 pandemic on social and economic conditions are generally compared to the previous two significant crises of the world, the 1929 Great Depression and the 2008 Global Financial Crisis. The change in global government debt and overall fiscal balance as a percent of GDP is depicted in Figure 1 in order to compare the major fiscal impacts of the Global Financial Crisis and the COVID-19 pandemic. According to the estimates of the IMF, government debt and fiscal balance will be severely affected in 2020 compared to 2009, the peak year of the Global Financial Crisis. Government debt and budget deficits increased enormously in 2009; however, according to estimates, these indicators will almost be doubled in 2020. Besides, the indicators in 2019 were much better than they were in 2008, implying the magnitude of the economic shock confronted recently. In this regard, one of the major costs of the COVID-19 pandemic is related to budget deficits and public debts; these variables are expected to rise more severely all over the world than those encountered during the Global Financial Crisis. (IMF, 2020a, p. 4).

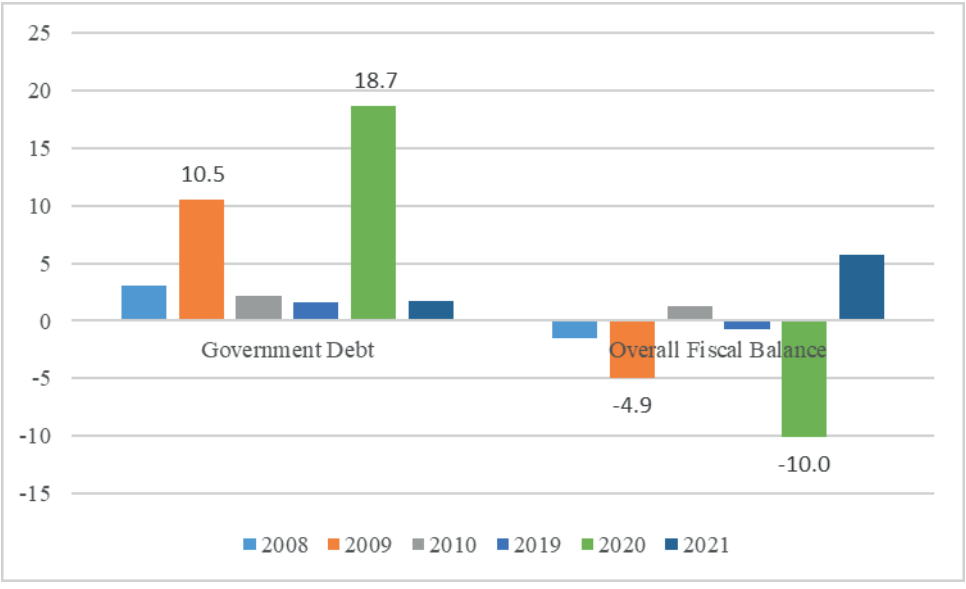


Figure 1. Change in global government debt and overall fiscal balance (percent of GDP)
Note: Based on the downloadable data available at https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020
Source: IMF, 2020b.

The COVID-19 pandemic has seriously affected macroeconomic stability; therefore, the implementation of macroeconomic policy tools along with the availability of fiscal space will be effective in coping with this process as well as the success of the treatment having significant impacts on future macroeconomic outcomes (Addison, Sen, & Tarp, 2020). The pre-pandemic basic stability indicators in selected emerging market economies in 2019 are displayed in Table 1. These countries include Brazil, China, India, Indonesia, Russia, South Africa, and Turkey. Unless timely, adequate, and effective fiscal measures are pursued, countries that already had low growth, high unemployment, and high inflation in 2019 may face more serious conditions as the COVID-19 crisis unfolds.

Table 1. Growth, unemployment, and inflation (as of 2019)

	Brazil	China	India	Indonesia	Russia	South Africa	Turkey
GDP (constant prices, percent change)	1.1	6.1	4.2	5.0	1.3	0.2	0.9
Unemployment rate (percent of total labor force)	11.9	3.6	-	5.3	4.6	28.7	13.7
Inflation (average consumer prices, percent change)	3.7	2.9	4.5	2.8	4.5	4.1	15.2

Note: Unemployment rates for China and Turkey are estimates and for India is not available. Inflation rate for China is estimate.

Source: IMF, World Economic Outlook Database, April 2020.

The enormous contraction in growth and employment rates during the first two quarters of 2020 have already surpassed the ones experienced during the previous episodes of crises. According to the projections, the global per capita GDP will decline by 6.2 percent, pointing to the deepest recession since the end of World War II, and the global rate of unemployment is forecasted to reach its peak when compared to the available data since 1965 (World Bank, 2020: pp. 15-18). Besides, there are some distinctive characteristics of the COVID-19 crisis in regards to the root of the crisis, the immediately required responses to the suffering segments of the society, and the affected countries. First of all, this time the crisis did not stem from the malfunctioning of financial markets; secondly, the immediate responses to the crisis should include increasing public expenditures to compensate the income losses due to rising levels of unemployment, and finally, low-income countries are at more risk due to their weak health systems, plunging commodity prices, decreasing remittances, rising capital outflows, contraction in trade credits, and foreign exchange crisis (Eichengreen, 2020). Therefore, the structural imbalances and the related problems make it more difficult for these countries to contain the pandemic and may cause the already alarming conditions to get worse. Although the economic and social costs in developing countries have increased significantly, the extent of the fiscal packages has been substantially weak compared to the

ones enabled in advanced countries. (Ghosh, 2020). According to the projections of Ortiz, Cummins, Capaldo, and Karunanethy (2015: p. 3), 83 percent of the developing world population will be affected by the budget cuts in 2020; the affected population will be 61 percent in high income countries. It is noteworthy that the research outcomes did not include the impacts of the COVID-19 as the study was conducted in 2015.

Regarding the preparedness and vulnerabilities of economies against COVID-19, data on selected indicators are compiled by the UNDP (2020). Accordingly, the level of preparedness is affected by indicators on human development, health systems, and availability of connectivity. The level of preparedness may provide information on how severe countries will be affected by the crisis; the lower the level of preparedness, the worse the conditions may get in that country. Accordingly, the adequacy of the health system and the connectivity opportunities enable countries to cope with the health crisis and pursue alternative routes in education programs via online courses and in labor markets via remote work for available job types. The results, on the one hand, are not surprising and also worrisome for developing countries and particularly for the least developed ones. The shortage of health care professionals and low levels of public health expenditures revealed the inadequacy of the health system when the exposure to COVID-19 was so immediate. On the other hand, the level of vulnerability is estimated via indicators on poverty, coverage of social protection programs, and the indicators of immediate economic vulnerability, including inflows of remittances, net official development assistance received, and inbound tourism expenditures (UNDP, 2020). It may be asserted that the higher the level of vulnerability is, the longer and deeper the deteriorating impacts of the COVID-19 pandemic on that economy will be.

3. The Concept of Fiscal Space

The significance of ample fiscal space for implementing fiscal measures without causing fiscal distress has prominently been discussed particularly for the last two decades. Although the debate on fiscal space is relatively new, it can also be argued that the availability of fiscal resources in coping with extraordinary circumstances or just for the financing of public needs and development objectives have always been under consideration. This issue is underlined by putting the difference between the "term" and the "concept" by Heller (2005b), who emphasized that fiscal space as a term is a new one, but as a concept, it is not since, for governments, the creation of fiscal space has always been one of the most crucial issues to deal with. Schick (2009, p. 2) also points out that the process of creating fiscal space can be perceived as old as the budgeting process itself or as a completely new principle for implementing fiscal policies and the preparation of budgets.

There are various definitions of fiscal space, and there is not a formally accepted definition of the term yet. Heller (2005a) defines fiscal space as the availability of fiscal resources enabling a government to implement essential policies and channel the relevant funds for these policies without detrimentally affecting fiscal sustainability. In expanding fiscal space, macroeconomic stability and fiscal sustainability are critical points to be focused on (Heller, 2005b). Accordingly, fiscal space is about securing room for maneuver for future productive expenditures along with the immediate requirement of funds in coping with economic crises and any unexpected expenditures due to various shocks. Ostry, Ghosh, Kim, and Qureshi (2010) focus on debt sustainability in developed economies, and fiscal space is defined as the difference between the critical point that is termed as the debt limit, above which debt sustainability is at risk, and the current debt level of a country. Schick (2009, p. 2) defines fiscal space as the availability of financial resources through the budget and emphasizes on the availability of borrowing for productive expenditures in developing countries as the debt service would be paid out without extra burden as a result of the relevant economic gains. In this context, fiscal space is defined as the availability of implementing discretionary fiscal policies without increasing risks in terms of fiscal sustainability. In estimating the fiscal space, a dynamic assessment is needed to evaluate sustainability under both current and also alternating policies including potential risks that can be faced. (IMF, 2016, p. 6). Kose, Kurlat, Ohnsorge, and Sugawara (2017) define fiscal space in reference to the availability of budgetary resources in order to service financial obligations; in their analysis, debt sustainability, the balance sheet composition of a government, external and private sector debt, and market perception are defined as the four main groups in determining the fiscal space in a sample of 202 countries.[1] Romer and Romer (2019: 255) define fiscal space as the availability of implementing fiscal policies that will have a stimulating impact on the economy or divert sources for the bailing out and recapitalization of the financial sector.

The extensive focus on fiscal sustainability issues since the last decade is largely an outcome of the Global Financial Crisis that severely affected particularly the peripheral European countries during which the private sector's crisis transformed into a sovereign debt crisis as a result of the fiscal stimulus packages, bailouts, and the loss of government revenues due to deteriorating economic conditions.

As a matter of fact, defining fiscal space also implies the possible policy mix for creating or expanding fiscal space. The IMF (2017, p. 37) emphasizes that when there exists limited

1 The analysis provided in the paper covers the period of 1990-2016, meanwhile there is an updated version of the database covering 1990-2019 available at http://www.worldbank.org/en/research/brief/fiscal-space

or no fiscal space, the relevant economy cannot easily pursue discretionary measures when needed and presents the basic features of the fiscal space as:

- The concept of fiscal space is multidimensional, as the implementation of discretionary fiscal policies depends on multiple factors.
- Fiscal space requires anticipatory and, therefore, dynamic assessments.
- Fiscal space in an economy can be affected through fiscal spillovers, arising as a result of the fiscal policies implemented in other economies.

As noted earlier, although there is not a consensus on the definition of fiscal space; we can argue that the common point of the different indicators included in the determination of it is that they are mostly related to fiscal sustainability- more specifically, to debt sustainability issues (Cheng & Pitterle, 2018). The main aspect of fiscal space is asserted as the government's solvency (Kose et al., 2017). The IMF's stance regarding fiscal space is clear-cut despite the emphasis on the difficulties in defining the concept and aptly determining the indicators for the exact measurement of fiscal space.[2] Accordingly, advanced economies with ample fiscal space can engage in investment expenditures; meanwhile, the ones with limited fiscal space can focus on health investments, infrastructure, and people. Developing countries, including emerging markets, carry risks in terms of debt sustainability, so fiscal discipline is asserted to be crucial. Finally, in low-income developing countries, increasing tax revenues should be targeted in the long run (IMF, 2020a, p. x). It can be asserted that the immediate responses to the pandemic, the examples of which may be liquidity supports, tax deferrals, and wage subsidies, are foremost determined by the availability of fiscal space, and most developing countries lack adequate fiscal space to engage in such policies. This perception implies that only major advanced economies can implement discretionary measures without pressure, regarding fiscal space. Nevertheless, it is also asserted in the Fiscal Monitor that expanding and improving public health expenditures are the major tasks of governments in low-income developing countries regardless of the availability of fiscal space and debt indicators. (IMF, 2020a, p. 18).

The IMF staff's evaluation on the principles for the designation of government supports to firms and households concerning the availability of fiscal space is displayed in Figure 2. Accordingly, the alternating instruments basically depend on the availability of fiscal space along with solvency issues and liquidity pressures in support to firms, and the coverage and the adequacy of social protection programs in support to households.

2 A critical review of the methodologies for measuring fiscal space is presented in the Fiscal Monitor of April 2012 (IMF, 2012, pp. 5-6). Also for a review and an evaluation of measures of fiscal space, please see Cheng & Pitterle (2018).

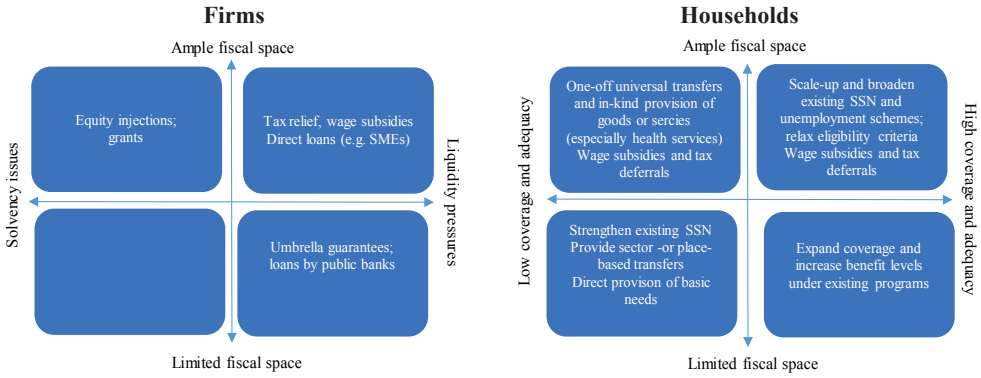


Figure 2. Some principles for instrument choice in supporting firms and households
Note: SMEs = Small and medium-sized enterprises; SSN = Social safety net
Source: IMF, 2020a, p. 17.

In this framework, problems related to debt sustainability are perceived as the most important issues to deal with; however, in most cases, these problems are not a direct result of the overspending of governments. For example, in the 2008 Global Financial Crisis, it was a result of bailing out financial institutions in addition to the stimulus packages, and nowadays in the COVID-19 case, it is the result of attempts of avoiding a general health crisis and also an economic downturn or collapse. Since private hospitals will not provide the services related to the COVID-19 treatment without setting aside profit maximization targets, leaving the provision of these services to the private sector will make the situation get worse for those who cannot afford the costs of the treatment. Hence state intervention is called for in order to contain the pandemic and to mitigate the effects of the economic turmoil. Therefore, the outbreak of COVID-19 is one of the historical events revealing the indispensable role of the state in stabilizing the economy and the effectiveness of fiscal space in accomplishing this task. However, the designation of policy tools with an excessive focus on -or even an obsession with- debt sustainability issues may also hinder the implementation of the appropriate policies since the availability of fiscal resources in sustaining forthcoming debt service is one of the distinctive factors in the decision-making process regarding the increase of public expenditures for the benefit of the general public. In case of sustainability problems, governments are required to postpone these expenditures or to increase public revenues, which means, most probably, broadening the tax base that practically- maybe not intentionally- turn into rising indirect taxes that pave the way for a more regressive tax structure.

During the recent crisis, countries with adequate fiscal space had the advantage of implementing preventive measures and discretionary policies without raising stress on

fiscal sustainability. Throughout this process, the availability of fiscal space and expansionary fiscal policies can be effective in preventing job losses and controlling unemployment levels, providing direct support to individuals and households that suffer income losses, providing high-quality public health services, providing high-quality public education services, combatting poverty and decreasing inequalities in society, and providing the necessary infrastructure and securing the accessibility to the required technology for pursuing online education and remote work programs. However, particularly in developing countries, low coverage of social protection systems, insufficiency of health expenditures, problems related to the availability of and the accessibility to effective treatment, problems related to the education system, existing inequalities, and insufficient infrastructure combined with the economic and social costs of the containment measures especially as a result of the lock-down processes remain unsolved when accompanied with limited fiscal space.

4. Regarding Fiscal Space and the Responses to the COVID-19 Crisis

It is evident that the instability and the crisis that emerged with the outbreak of COVID-19 cannot be overcome simply by the functioning of markets. As asserted by Musgrave (1959, p. 22), without the implementation of appropriate policies, instability will be inevitable. Hence, the stabilization function of governments should be an important component of policy responses against COVID-19 along with their allocative and redistributive functions. The availability of fiscal space, which is closely related to stability conditions of the economy and the policies towards increasing employment, securing and sustaining growth, and controlling inflationary pressures, will be of significant importance. In this context, the proposal for the implementation of long-term policies via "permanent stimulus" programs that imply continuously increasing public investments through deficit financing is remarkable, and since interest rates are at their historical lows, the rising public debt ratio is not considered a serious problem that has to be avoided. (Krugman, 2020). Therefore, fiscal policy responses are an important component of overall measures in coping with the crisis. Meanwhile, the effectiveness of fiscal policy is directly associated with the availability of fiscal space. (Kose, Ohnsorge, & Sugawara, 2018).

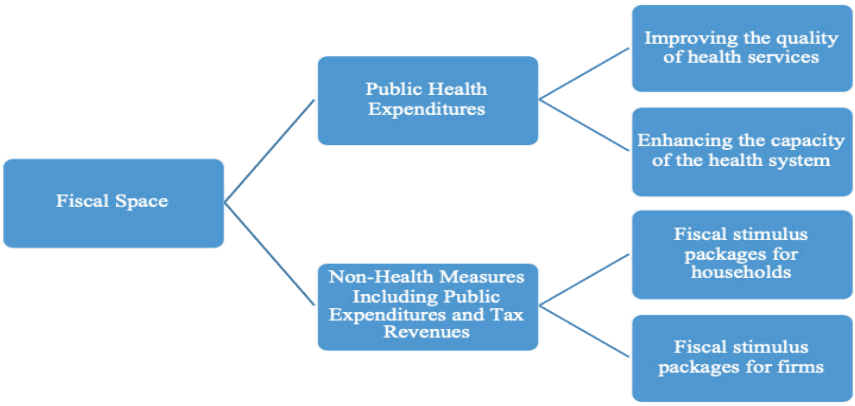


Figure 3. Fiscal space and the COVID-19 pandemic
Source: Author's own compilation

As a preliminary response, fiscal space could be utilized in order to protect lives and avoid a health crisis. However, the current situation is far beyond a health crisis, affecting livelihoods in many dimensions with the emergence of economic and social costs. Therefore, measures for the prevention of both health and economic crises should be carried out together. Essential measures regarding the public health system include the improvement of the health services, both in extent and quality, and the enhancing of its capacity as a safeguard against the further spread of the virus. Primary measures regarding non-health sectors include public expenditure and tax policy tools under fiscal stimulus packages that target protecting the livelihoods of the vulnerable segments of society and compensating income losses arising as a result of the suspension of economic activities (Figure 3). The ideal position requires ample fiscal space through which fiscal resources are allocated sufficiently to relevant units. If implemented appropriately, one of the significant outcomes of the stimulus programs can be the reduction of income distribution inequality. This will also be a desirable outcome in terms of gaining resiliency against future shocks as it is already asserted that the vulnerability to unexpected shocks rises with increasing inequality and poverty, but in the case of limited or no fiscal space, due to the inability of providing adequate support to the health system and/or households and firms, conditions will get tougher.

As the pandemic has severely affected economies, the number of countries taking measures to tackle this unprecedented crisis has increased rapidly. The common fiscal support measures for non-health sectors are displayed in terms of spending and revenue measures, respectively, in Figures 4a and 4b. Regarding the spending measures, transfers or liquidity support to firms, wage subsidies, and targeted transfers to households are the most commonly

used ones among others (Figure 4a). Regarding revenue measures, the most common ones comprise of tax deferrals for firms and households and the deferral of social security payments (Figure 4b).

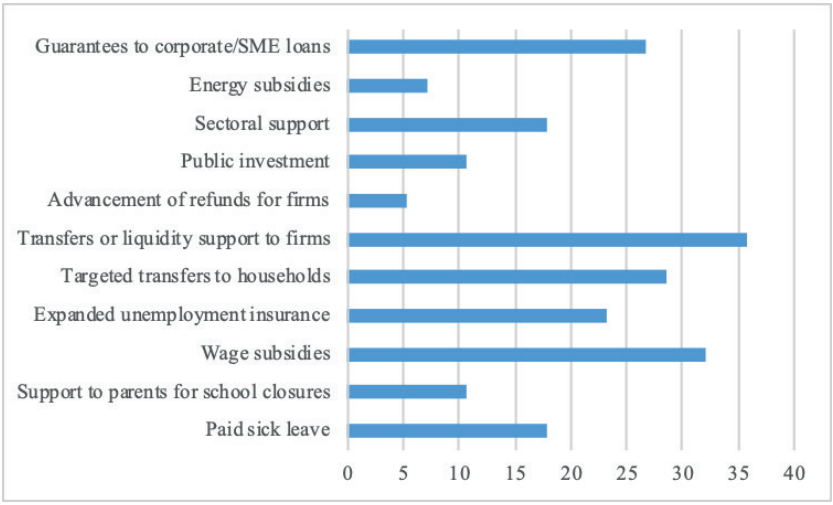


Figure 4a. Spending measures (percent of countries with fiscal support)
Source: IMF, 2020a, p. 15.

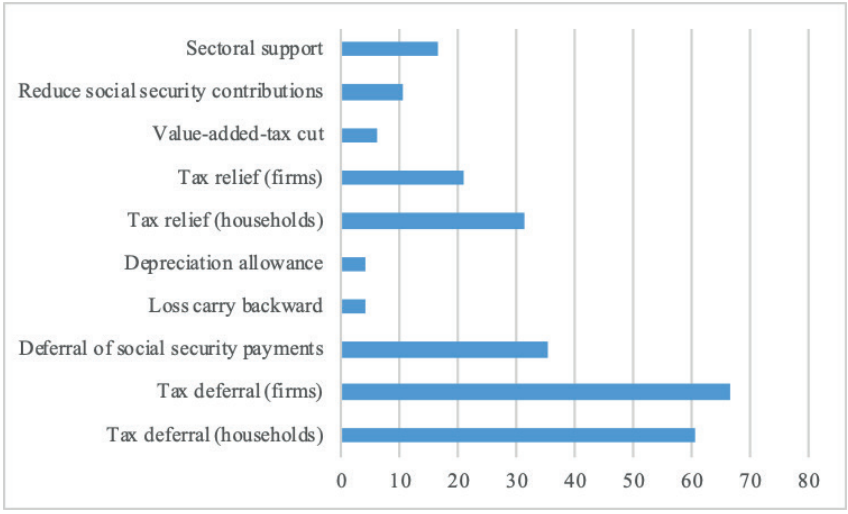


Figure 4b. Revenue measures (percent of countries with fiscal support)
Source: IMF, 2020a, p. 15.

The problems faced by countries around the world due to the pandemic are similar. However, the severity and the duration of the crisis will depend on the fiscal stance of governments and the perceptions on the economic and social role of the state in combatting

the crisis. Although the types of the measures implemented were alike, the magnitude of the packages depended heavily on the availability of fiscal resources. Besides, the peculiarities of each economy also affected the availability of fiscal space.[3] On the other hand, discretionary measures to be implemented should be compatible with the specific conditions of each economy; e.g. if there exists a considerable share of informal employment, the short-term work allowance would not be utilized by all employees. In such country-specific circumstances, income supports should be targeted to all.

The basic composition of the fiscal measures in order to deal with the crisis in selected emerging markets is displayed in Figure 5. Regarding the measures as a response to the pandemic, except for India and Turkey, additional spending and forgone revenues have a higher share of GDP compared to liquidity supports. In this sense, the situation of Turkey is remarkable regarding the relatively low share of additional spending and forgone revenue in GDP since there is room to implement discretionary measures due to the low debt-to-GDP ratio and the relatively low budget deficit (Table 2).

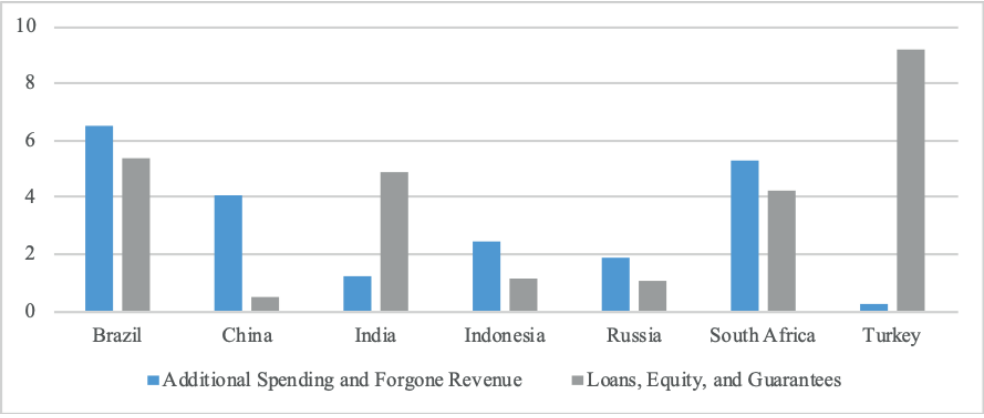


Figure 5. Fiscal measures in response to the COVID-19 pandemic in selected emerging markets (percent of GDP)
Note: Based on the downloadable data available at https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020
Data are as of June 12, 2020.
Source: IMF, 2020b.

To put it in a nutshell, the initial responses were comprised overwhelmingly of the provision of loans and guarantees and also of facilitative measures that target tax and social security deferrals along with various transfers and wage subsidies. However, there are some

3 For example, the limited fiscal space in Mexico, Russia, and Saudi Arabia is attributed to the collapse of the oil prices (Alberola, Arslan, Cheng, & Moessner, 2020).

significant divergences between this actual policy bundle and the proposals of heterodox approaches. To exemplify this, in for the case of the US, Nersisyan and Wray (2020) proposed public financing of medical costs of COVID-19, diverting funds for paid sick leave, implementing a household debt relief program, and the rapid provision of services related to testing and treatment to underserved segments of society.

The case for limited fiscal space cannot be easily compensated through the functioning of automatic stabilizers, particularly in developing economies. As one of the most well-known instruments of automatic stabilizers, the unemployment fund may not cover all the working population because of the high levels of informal employment in these countries. Besides, the economic standstill that has already turned into a recession in many countries points out the structural imbalances and deficiencies that require a well-designed and planned set of economic policies, including discretionary fiscal measures as the most important tool to overcome this process (see Alberola et al., 2020).

In which countries the COVID-19 pandemic might trigger a fiscal crisis will depend on the type and the magnitude of policy tools along with the availability of fiscal space. Even if the fiscal space is expected to be limited, the instruments can be chosen in such a way that through the achievement of economic stability targets, prosperous growth can enable ample fiscal space as opposed to the current constraining conditions. Diversified responses to the COVID-19 crisis can enable countries to address the underlying vulnerabilities and fragilities they face.

Table 2 presents the pre-pandemic -as well as the projections for 2020 and 2021- fiscal balance and gross debt-to-GDP ratios for selected advanced and emerging market economies. Advanced economies with both ample and relatively limited fiscal space can be compared to emerging markets. According to the projections of the World Economic Outlook Update report, the fiscal balance of governments and, therefore, their public debt will severely deteriorate in 2020 and also in 2021. (IMF, 2020b, p. 20).

Table 2. General government fiscal balance and gross debt, 2018–2021 (percent of GDP)

	Overall Fiscal Balance				Gross Debt			
			Current Projections				Current Projections	
	2018	2019	2020	2021	2018	2019	2020	2021
World	**-3.1**	**-3.9**	**-13.9**	**-8.2**	**81.2**	**82.8**	**101.5**	**103.2**
Advanced Economies	**-2.7**	**-3.3**	**-16.6**	**-8.3**	**104.0**	**105.2**	**131.2**	**132.3**
United States	-5.8	-6.3	-23.8	-12.4	106.9	108.7	141.4	146.1
Euro Area	-0.5	-0.6	-11.7	-5.3	85.8	84.1	105.1	103.0
Germany	1.9	1.5	-10.7	-3.1	61.9	59.8	77.2	75.0
France	-2.3	-3.0	-13.6	-7.1	98.1	98.1	125.7	123.8
Italy	-2.2	-1.6	-12.7	-7.0	134.8	134.8	166.1	161.9
Spain	-2.5	-2.8	-13.9	-8.3	97.6	95.5	123.8	124.1
Korea	2.6	0.4	-3.6	-2.4	40.0	41.9	49.5	53.4
Emerging Market Economies	**-3.8**	**-4.9**	**-10.6**	**-8.5**	**48.9**	**52.4**	**63.1**	**66.7**
Brazil	-7.2	-6.0	-16.0	-5.9	87.1	89.5	102.3	100.6
China	-4.7	-6.3	-12.1	-10.7	47.0	52.0	64.1	70.7
India	-6.3	-7.9	-12.1	-9.4	69.6	72.2	84.0	85.7
Indonesia	-1.8	-2.2	-6.3	-5.0	30.1	30.5	37.7	40.3
Russia	2.9	1.9	-5.5	-3.9	13.5	13.9	18.5	18.8
South Africa	-4.1	-6.3	-14.8	-11.0	56.7	62.2	79.9	84.6
Turkey	-3.7	-5.3	-8.4	-7.5	30.4	33.0	40.4	42.2

Note: Selected countries from the relevant source.
Source: IMF, 2020b, p. 20.

Given the current structural imbalances, including but not limited to balance of payments issues, foreign exchange problems, inflationary pressures, the risk of increasing capital outflows, and the possibility of a sudden stop, combined with soaring budget deficits and public debt, fiscal sustainability is undermined, leaving countries with limited fiscal space to cope with the serious outcomes of the COVID-19 crisis. Although some of the emerging markets pose a relatively favorable fiscal stance in terms of sustainability issues, the interdependence of the world economy through international markets and the aforementioned structural problems raise concerns about the available room for implementing discretionary measures without causing fiscal distress that would compel the relevant countries to carry out policies to secure the primary balance in order to service the debt,[4] which will, in turn, restrain fiscal policies from being pursued for the sake of society. Romer and Romer (2019: 309) asserted that the gross debt of a country is one of the basic determinants of fiscal space and emphasized the close relation between debt-to-GDP ratios and the fiscal responses to economic crises; accordingly, the implementation of expansionary fiscal policies is associated with low public debt levels.

4 For the relation between the primary surplus and public debt ratio please see Ostry et al. (2010).

The findings of Kose et al. (2017) highlight the narrowing of the fiscal space in many developing countries, including emerging markets, since the Global Financial Crisis whereas in advanced economies, most of the relevant indicators returned to their pre-crisis levels. This evaluation is noteworthy regarding the significant role of fiscal space and may provide an answer on how the magnitude and speed of fiscal measures differ among advanced and developing countries when they are confronted with the pandemic. The relatively extensive fiscal space in advanced economies compared to emerging market economies is attributed to more secure financing, indicating credibility and institutional strength. (IMF, 2018).

One of the most significant indicators of risk in times of crisis in developing countries is the availability of reserves (Figure 6). If compounded with high levels of external debt stock, particularly in the form of short-term external debt, rising borrowing costs, and credibility problems, low levels of international reserves point to unfavorable conditions for developing economies in turbulent times.

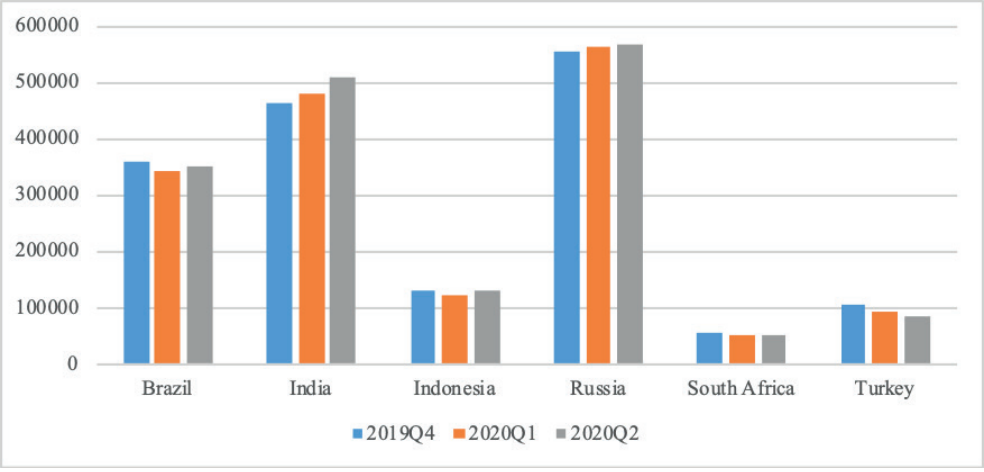


Figure 6. Total reserves (US Dollars, millions)
Source: IMF, International Financial Statistics.

Since a vaccine and a proper treatment of COVID-19 is not available yet, the emerging market economies that diverted their limited fiscal resources to cope with the crisis up to now may face serious difficulties in the near future due to financial and fiscal problems; the process seems to be more challenging for economies with problems of debt sustainability (Mühleisen, Gudmundsson, & Poirson Ward, 2020). What would be worse is a severe and a prolonged crisis that could seriously constrain further fiscal policy responses against the pandemic.

Selected indicators of fiscal space for emerging market economies in Table 3 reveal the specific vulnerabilities and/or the relative advantages of each country and also imply the likely measures to be taken to expand fiscal space.

Table 3. Selected indicators of fiscal space (as of 2019)

	Brazil	China	India	Indonesia	Russia	South Africa	Turkey
Primary balance, % of GDP	-1.0	-5.5	-2.6	-0.5	2.3	-2.3	-3.5
Fiscal balance, % of average tax revenues	-26.7	-47.9	-48.6	-19.7	8.0	-23.9	-30.8
Central government debt maturing in 12 months or less, % of GDP	9.3	4.4	5.2	2.5	3.0	9.5	4.3
Short-term external debt stocks, % of total	13.0	57.3	19.6	11.7	10.1	17.8	27.8
Short-term external debt stocks, % of reserves	20.5	36.1	23.6	36.8	8.6	62.3	117.1

Note: Data in the table are from the Spring 2020 version, available at http://www.worldbank.org/en/research/brief/fiscal-space

Source: Kose et al., 2017.

Two significant issues arise regarding the relation between fiscal space and the COVID-19 pandemic, the availability of fiscal space at the onset of the outbreak to address the health crisis and the ways of expanding fiscal space in coping with the resulting economic crisis. In fact, to a certain extent, tools to be chosen for strengthening the fiscal space are related to the current fiscal stance (see IMF, 2018). Different ways of expanding it will also determine the beneficiaries or the segments of the society that are favored by the relevant fiscal decisions. Meanwhile, as restrictions eased and/or were lifted gradually, new cases of coronavirus started to increase considerably in some countries, indicating the indispensable role of fiscal policies in responses to the COVID-19 pandemic.

5. Conclusion

The COVID-19 pandemic is far beyond a health crisis; it has brought crucial economic and social impacts. Therefore, in confronting one of the most serious and complicated crises, governments have activated fiscal and monetary policy tools in order to support their economies. The strength of the responses has been in tandem with the availability of fiscal space. Developing economies with limited fiscal space have, so far, lagged behind advanced economies in fiscal policy measures. Accordingly, the economies that are already under compelling fiscal conditions will be more severely affected and carry the risk of facing a deeper crisis later on. The availability of fiscal space is important in the sense that governments can implement any required discretionary policy mix during a crisis or in the sense that the fiscal space may facilitate future objectives by directing resources to the relevant areas.

Therefore, fiscal space is about securing room for maneuver in challenging circumstances and also for future productive expenditures.

Particularly since the last decade, the concept of fiscal space has been widely discussed, and the importance of ample fiscal space has been pointed out by many researches. The most remarkable instances of the discourse on fiscal space have been during the 2008 Global Financial Crisis and the COVID-19 pandemic. The geographical impacts were somewhat limited in the case of the former, affecting developed economies, particularly European economies; however, in case of the latter, devastating impacts spread all around the world although it is generally accepted that the eventual impacts will be more heavily felt by developing countries. The concept and the availability of fiscal space were a prominent debate during the Global Financial Crisis due to the problems regarding the sustainability of public debts. In the recent case, the fiscal space is a live debate because of the need for public resources for increased health expenditures, treatment costs, and research on vaccines on the one hand and the transfer of resources to households and firms that have been affected by income and job losses on the other.

Creating fiscal space and securing funds concerning both immediate cases and future programs for increasing expenditures on public investments, research and development, education, and health are of significant importance. Arguing the ways to expand fiscal space is beyond the scope of this paper; however, it is noteworthy that any policy, which will not only be a technical issue, cannot always bring out favorable conditions for the whole society. The important thing, then, is to determine how the fiscal space will be used. In a broad sense, a deliberate plan to increase productive public investments and human capital that will be directly related to the provision of high-quality education and health services to the whole society will also help countries to generate further fiscal space in the prospective future. Redesigning tax systems and enabling a more progressive tax structure, via increasing the progressive taxation of wealth, help to expand fiscal space. Therefore, the creation of ample fiscal space in order to implement discretionary fiscal policies and to facilitate decreasing income inequality and concomitantly to eliminate specific structural problems of each economy need to be in the agenda of the post-pandemic period.

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PART 3

SOCIAL AND POLITICAL RISKS AND UNCERTAINTIES

CHAPTER 3.1.

COVID-19 INDUCED UNCERTAINTY AND LABOR MARKETS: RISKS AND INSIGHTS DURING THE EARLY STAGES OF THE PANDEMIC IN TURKEY

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Abstract

The global spread of COVID-19, presenting both economic and social shocks that cause severe impacts on labor markets, has led to a crisis worldwide. These impacts differ among countries depending on the structural features of their labor markets and the scope of the measures taken. Based on the preliminary literature on COVID-19, we assess that the negative consequences of the current crisis are particularly harsh for disadvantaged and vulnerable labor groups, informal workers, low-income occupations and the youth. And hence, we claim that the unequal character of the risks posed by the pandemic is mainly due to inequalities associated with the segmented structure of the labor markets and also sharpens its long-existing negative features. We discuss that the major risks of the Turkish labor market are the high level of informal workers, the disadvantaged position of young people and the domination of the service sector. These structural characteristics of the Turkish labor market are likely to deepen the pandemic induced crisis in the long run.

Keywords: COVID-19, Turkish Labor Market, Labor Market Segmentation, COVID-19 Induced Uncertainty, Labor Market Inequalities.

1. Introduction

The new coronavirus (COVID-19) pandemic, which has infected more than 11 million people and caused the death of more than 5 hundred thousand since its emergence in December 2019, has led to a crisis that requires an urgent intervention worldwide. Besides the public health crisis, the socio-economic effects of the pandemic also threaten societies all over the world, revealing the need for a multi-dimensional struggle against the pandemic and its consequences.

The primary agenda following public health is the economic uncertainty caused by the pandemic and measures taken to prevent it (Baker, Bloom, Davis, & Terry, 2020). With an optimistic forecast, even if a second wave will not occur, the economic destruction caused by the pandemic is expected to reach dramatic dimensions and it is stated by many institutions and scientists that the world economy is under serious risks that require a series of urgent measures (Baldwin & Weder di Mauro, 2020).

The COVID-19 induced economic crisis, triggered by both supply and demand shocks, has brought the world to an unprecedented challenge (Rio-Chanona, Mealy, Pichler, Lafond, & Farmer, 2020, p. 67). The primary impact of the COVID-19 crisis is the rapid drop in labor supply. Due to the measures taken in order to slow the spread of the disease, a large part of the workforce withdrew from the labor market. Many companies in various sectors stopped their activities following lockdowns, travel prohibitions, border closures and quarantine measures. In addition to the serious drop in labor supply, demand shocks have also increased the risks posed by the crisis on the labor market. Social restrictions have led to a significant contraction in the service sector, especially in areas such as food and beverage, tourism, accommodation, and retail.

The restrictions on social mobility, income losses and future uncertainties have also triggered a serious drop in the consumption of goods and services. Since the labor market is a derivative one, economic fluctuations affect the demand for labor. Therefore, millions of people have already faced layoffs and income losses, meaning additional millions are at risk.

According to the April report of the ILO, the COVID-19 pandemic will result in a significant contraction in employment and a decline in labor markets in terms of wages and access to social protection. It is predicted that more than 25 million people will lose their jobs globally. The increasingly stricter restraint measures taken to slow down the spread of COVID-19 also affect 2.7 billion employees, currently representing about 81% of the world's workforce (ILO, 2020a, pp. 1, 4). There is no doubt that the extents of this effect will differ

among countries depending on the structural features of the countries and the scope of the measures taken. For this reason, each country needs to take long-term measures, according to the structure of their labor markets.

2. COVID-19 Induced Economic Uncertainty and Turkey

The most challenging aspect of the current crisis is the high uncertainty, which is likely to cause deep and probably long-term economic, sociological and psychological impacts. Since it is not clear when and how the pandemic will be totally controlled, predictions are made under various scenarios to mitigate its socio-economic effects.

In an optimistic scenario, the OECD expects a 6% contraction in the world economy for 2020 because of the COVID-19 pandemic. The projection for a scenario of a second wave is that the contraction will reach 7.6% (OECD, 2020a). Therefore, the OECD calls on governments for urgent interventions with rapid and coordinated policies against its economic effects (OECD, 2020b, p. 1). The IMF also projects a sharp contraction (3%) in the global economy as of 2020. According to a forecast for 2021, the growth rate might increase to 5.8 % if the pandemic ends in the second half of 2020 and the economy normalizes with policy support (IMF, 2020, pp. 1, 8).

The literature on the economic uncertainty indicates that, such bad times in the economy triggers high uncertainty (Bachmann, Elstner, & Sims, 2010, p. 28) and in addition to its consequences on output and productivity, uncertainty shocks typically result in a rapid drop in employment (Bloom, 2009, p. 624). Firms halt new investment decisions and freeze recruitments while individuals postpone their consumption plans. In other words, both macro and micro uncertainty rise during such bad times in the economy (Bloom, 2014) and this deepens the effects of the crisis.

Researches reveal that the rapid spread of COVID-19 has led to a severe increase in overall uncertainty (Bloom, Bunn, Chen, Mizen, & Smietanka, 2020). The level of uncertainty shock created by COVID-19 is already beyond the financial crisis of 2008-2009 and is more similar to the Great Depression of 1929. The current crisis, on the other hand, is unique in many ways. Even though it is possible to compare its demographic impacts with the Spanish Flu of 19th century, the latter had completely different social, political and economic context (Baker et al., 2020, p. 7). Therefore, it is believed that contemporary societies are facing a crisis that they have never encountered before.

On the other hand, labor markets all over the world, were already in a process of change and transformation even before the pandemic. Starting from the 1980s, world societies were

experiencing a process in which uncertainty and precariousness prevailed, as Ulrich Beck puts it, evolving into risk societies (Beck, 2014). Notions of uncertainty and insecurity characterizing risk societies are closely related to the transformation of working life. Risk societies are societies where uncertainty is widespread and full employment disappears in labor markets (Strangleman, 2007, p. 84). The proliferation of temporary, insecure and flexible working models bring along an uncertain and risky appearance of working life (Standing, 2011). Also, the rapid increase in technological developments has made the future of working life the most important agenda especially in the past two decades. It was one of the most highlighted topics of discussion that technological developments such as artificial intelligence and robotics would eliminate many of the professions and therefore labor markets would need to be restructured considering the requirements of the future of work. We argue that the current crisis has accelerated all this transformation and has made the effects of the negative course deeper and visible. Besides, it is known that the global economic uncertainty rates have been increasing rapidly since 2012 (Ahir, Bloom, & Furceri, 2019, p. 7). The current COVID-19 induced uncertainty has sharpened this ongoing process.

Currently, the extent to which COVID-19's effects on the labor markets remain uncertain, and uncertainty further deepens the risks and inequalities existing in the labor market. According to the OECD Economic Outlook Report released in June 2020, Turkey's economy is expected to contract by 4.8% in 2020 due to employment losses, income shortfalls and a rapid fall in external demand caused by the pandemic. In case of a second wave in the outbreak, this contraction is predicted to be by 8.1% (OECD, 2020a, p. 319). Moreover, the structural characteristics of the Turkish labor markets are likely to extend the crisis. Therefore, our analysis starts with the outline of the pre-pandemic structure of the Turkish labor markets below.

2.1. Basic Features of the Pre-pandemic Labor Market in Turkey

More than being unprecedented and unexpected, COVID-19 related risks appear to deepen the long-existing structural weaknesses of labor markets in Turkey.

Before the pandemic, the population of 15 years old and over was 62,015 thousand and the labor force was 31,629 thousand. The employment rate was 44% with a 0.5-point decrease in January 2020 compared to the same period of the previous year. While the number of agricultural and construction employment decreased, employment in industry and service sectors increased by 366 thousand people. According to the distribution of employment by sector; 58% was employed in service, 20% in industry, 17% in agriculture and 5% in construction. The data depicts that the service sector has a dominant position in employment.

Table 1. Main Labor Force Indicators, 15 + age, (Thousand) January 2019, January 2020			
	2019	**2020**	**Difference**
Population	61,017	62,015	998
Labor Force	31,825	31,629	-196
Employment	27,157	27,266	109
Agriculture	4,618	4,376	-242
Industry	5,392	5,649	257
Construction	1,478	1,410	-68
Service	15,670	15,831	161
Unemployment	4,668	4,362	-306
Not in the Labor Force	29,192	30,386	1,194
Labor Force Participation Rate	52.2	51.0	-1.2
Employment Rate	44.5	44.0	-0.5
Unemployment Rate	14.7	13.8	-0.9
(TURKSTAT, 2020a)			

The unemployment rate was 13.8% with a 0.9 percent decrease. While interpreting unemployment, it is necessary to consider the labor force participation rate and the reasons why people do not participate in the labor force. The most striking group among those who don't participate in the labor force are the ones who aren't seeking a job (during the data collection period) but available to start working, and the number of these people was 2,786 thousands. The vast majority of them were discouraged workers who had given up looking for a job after a long period of unemployment. The data on the duration of unemployment shows that, there are 1,126 thousand people who are unemployed for one year or more and some of them can be considered as the discouraged workers of the near future. Indeed, the number of discouraged workers has increased by 53.1% compared to the same period of the previous year.

Based on the data announced in February 2020, the employment rate has decreased (43.1%.), together with the unemployment rate (13.6%). This remarkable result arises from the decrease in the labor force participation especially due to the increase in the number of those who aren't seeking a job but are available to start working. Discouraged workers have also increased by 78.3% compared to the same period of the previous year (TURKSTAT, 2020b).

Table 2. Detailed Labor Force Indicators, (Thousand) January 2020

				Compared with the Same Period of the Previous Year	
		Number	%	Difference (Thousand)	Change (%)
Employment	**Employment Status**	**27,266**	**100**	**109**	**0.4**
	Regular or casual employee	19,058	69.9	352	1.9
	Employer	1,253	4.6	50	4.2
	Self employed	4,596	16.9	-92	-2.0
	Unpaid family worker	2,360	8.7	-201	-7.8
Unemployment	**Duration of unemployment**	**4,362**	**100**	**-306**	**-6.6**
	1-2 months	1,398	32.0	-374	-21.1
	3-5 months	1,134	26.0	-111	-8.9
	6-8 months	554	12.7	-41	-6,9
	9-11 months	150	3.4	-2	-1.3
	1 year and more	1,126	25.8	221	24.4
	Status before seeking a job	**4,362**	**100**	**-306**	**-6.6**
	Job was temporarily	1,783	40.9	-110	-5.8
	Dismissed	563	12.9	-27	-4.6
	Quit the job by own initiative	687	15.7	5	0.7
	Liquidated/Bankrupted	212	4.9	-27	-11.3
	Was working as an unpaid family worker	19	0.4	5	35.7
	Retired	109	2.5	-14	-11.4
	Was in education or training	459	10.5	-56	-10.9
	Just completed his military service	86	2.0	-7	-7.5
	Busy with household chores	364	8.3	-79	-17.8
	Other	80	1.8	4	5.3
	Previous activity	**4,362**	**100**	**-306**	**-6.6**
	Agriculture	291	6.7	-25	-7.9
	Industry	734	16.8	-47	-6.0
	Construction	657	15.1	-144	-18.0
	Services	2,253	51.7	-35	-1.5
	Those who quit job before the last 8 years	186	4.3	-5	-2.6
	First time job seekers	242	5.5	-48	-16.6
	The reason for not in the labor force	**30,386**	**100**	**1,194**	**4.1**
	Not seeking a job but available to start	2,786	9.2	475	20.6
	Discouraged	946	3.1	328	53.1
	Other	1,840	6.1	147	8.7
	Seasonal worker	129	0.4	-34	-20.9
	Household chores	11,438	37.6	126	1.1
	Education/Training	4,644	15.3	34	0.7
	Retired	5,075	16.7	193	4.0
	Disabled, old or ill	4,138	13.6	156	3.9
	Other	2,177	7.2	245	12.7

(TURKSTAT, 2020a)

When the previous activity of the unemployed people was examined, it was seen that 40.9% of them worked in temporary jobs, which shows that about 2 million people had been employed in temporary jobs and 51.7% of them worked in the service sector. Also, 186 thousand of them quit their job before the last eight years and 242 thousands were first time job seekers whose employability was very low.

Informal employment is one of the most important structural problems of Turkish labor markets. In February 2020, the rate of informal workers decreased 3.5 points compared to the same period of the previous year and reached 30% which means that more than 8 million people were working undeclared and unregistered to social security institutions and therefore not covered by the social security protection (TURKSTAT, 2020b). The highest rate of informal employment (2019 yearly) is seen in the agriculture sector, where 86.6% of all work is unregistered. Although informal employment is an exceptional situation for labor markets, it has almost become the basic feature of employment in this sector. In some fields of the service sector, unregistered employment is above 25% and in the construction sector, it is 37.7%. Within the groups of the professions, the highest informal employment rate is in the agriculture, forestry and aquaculture with 84.7%, followed by the jobs that do not require qualification with 49.7%, services and sales with 33.4%, and artisans and related jobs at 33.3%. The informal employment rate is lower for professionals (5.7%) and those working in office services (6.8%) (TURKSTAT, 2020c).

Investment plans of employers are an important determinant of labor demand in an economy. According to IŞKUR's (Türkiye İş Kurumu-Turkish Employment Agency) 2019 Labor Market survey, only 9.9% of the enterprises plan to invest in the next year. This rate rises to 17% in enterprises with twenty or more employees. The vast majority of the enterprises (90%) didn't plan new investments for 2020. The information and communication sector has the highest rate (19.7%) in all sectors and it is followed by mining and quarrying with 15.9%, and manufacturing with 15.7%. The lowest rates are seen in businesses operating in transportation and storage (4.9%), professional, scientific and technical activities (6.3%), and finance and insurance (6.8%) (İŞKUR, 2019, p.27). The employment predictions of the enterprises surveyed predominantly indicate that employment will remain stable (39.8%), only 14.5% of the enterprises expect an increase in employment in the next year, while 2.9% expect a decrease and 42% declared that they have no idea. (İŞKUR, 2019, p.110).

The pre-pandemic structure of the labor markets in Turkey seems to have many ongoing problems and contain existing and potential risks. With the spread of the outbreak, these risks are thought to bring greater burdens on employment and lead to more severe problems.

2.2. Measures Taken to Slow the Spread of COVID-19 in Turkey

The first COVID-19 case was announced on the 10th of March in Turkey. Spreading rapidly the outbreak reached its peak at the end of April in terms of contagion rate. Even though Turkey has a health care system with a comparatively low average number of doctors and hospital beds per capita, it was well prepared for the pandemic due to its strong intensive care infrastructure (OECD, 2020a, p. 320) and being a country in which the pandemic emerged relatively late allowed the authorities to take the necessary measures in time.

The first measure taken as of March was to suspend education at all levels across the country to slow the spread of the outbreak. Online education started for primary and secondary classes on National TV and the Internet on 23 March. Universities shifted to fully on-line education via their distance education centers and Higher Education Council's courses platform. The International Basketball Federation (FIBA) decided to stop all affiliated organizations. Football leagues were interrupted with all sports events. International and domestic air transportation was gradually limited and completely stopped on the 28th of March. City entrances and exits were closed in the metropolitan cities and Zonguldak province, so transportation in the country has been limited. In urban public transportation, the sparse seating arrangement was applied. In some cities, wearing masks has been made compulsory in public places. Culture and art events were stopped, hearings were postponed in all courthouses, except for compulsory procedures requiring detention, libraries and museums affiliated to the Ministry of Culture and Tourism were closed. With the circular issued by the Ministry of Interior, it was announced that theatres, cinemas, show centers, concert halls, cafes, night clubs, bars, coffee shops, cafeterias, internet cafes, all kinds of game halls, all kinds of indoor playgrounds, amusement parks, swimming pools, Turkish baths, saunas, SPAs and sports centers would be closed temporarily. All restaurants, patisseries and similar workplaces were restricted to serving only takeaway food. Barbers, hairdressers and beauty centers' activities were temporarily stopped. In April, a curfew was imposed for under-20s and over-65s, with certain exceptions. On weekends and national and religious holidays, the curfew was brought across the country. (DTR-İHK, 2020). Even though business activities had been suspended in many areas, the quarantine was not applied across the country. Since workplace closures and curfews were implemented at the level of special age groups, towns and neighborhoods, the sectors closed by administrative decision remained limited in international comparison. In other words, only 40% of the population was formally locked down (OECD, 2020a, p. 320).

2.3. Measures against the Socio-economic Impacts of the Pandemic in Turkey

Most countries have rapidly taken socio-economic measures to alleviate the negative effects of the pandemic on their economies and to speed up the economic recovery once the control measures are lifted. Developed countries provided direct liquidity support to companies and individuals who suffered from income losses, particularly for the sectors, which were hit by demand declines, such as the tourism and retail sectors and for the small and medium-sized enterprises because of their vulnerable positions in the economy (Bircan, Koczan, & Plekhanov, 2020).

Since Turkey was among the countries with the highest prevalence rates, the COVID-19 induced socio-economic crisis has spread rapidly as it has all over the world. This crisis is expected to have permanent sociological, psychological and economic impacts in the medium and long term. A wide range of support measures has been undertaken by the government. Primarily, measures against the economic destruction and its reflection on the labor markets, which is expected to affect all other factors directly or indirectly have started to be implemented. In this context, support mechanisms such as short-time work allowance, unpaid leave allowance and unemployment insurance have been put in place to prevent job and income losses. Also, dismissals were prohibited for 3 months (Resmi Gazete, 2020a).

Direct income support has not been provided to businesses. However, through increased state loan guarantees, mainly through public and private banks, as well as tax and credit deferrals and supplementary loans which are encouraged by lending and prudential regulations business were supported in order to avoid widespread bankruptcies. A low-interest credit mechanism was also run at the individual and household level by public banks particularly to self-employed workers and needy households. The Central Bank supports the lending capacity of the financial system through expanded liquidity windows, additional asset discounts for banks and an expanded export credit facility. In addition to loans and credits, 5.3 million households got income support of 1,000 TL as emergency aid (OECD, 2020a, pp. 321-322).

2.4. Practices Encountered in Work Life

Various practices were implemented in the labor markets within the scope of measures taken against the spread of the pandemic. The rates of job losses and income losses were also closely related to whether the jobs are suitable for distance working or not. In order to determine the framework of policies and measures to be developed for the labor markets, researches have been conducted to determine the extent of employment and type of

occupations that distance work is possible. Data from various countries indicates that 22 million people constituting 49% of the total workforce in Germany, 75 million people constituting 47% of the workforce in the USA and 11 million jobs that makeup 41% of the workforce in South Korea continue to work from home as of March 2020 (Statista, 2020, p. 10). Dingel and Neiman's study reveals the significant variation in distance working percentage across countries that lower-income economies have a lower share of jobs that can be performed at home. According to the classification of occupations, rather if it's feasible to work from home or not based on the "work context" and "generalized work activities" survey results, 41% of U.S. jobs can be done at home, while this share exceeds 40% in Sweden and the United Kingdom, whereas it is lower than 25% in Turkey. This difference between countries is closely related to the sectoral distribution of employment. The industries with the highest share of distance work are educational services, professional, scientific, and technical services, management of companies and enterprises, finance and insurance, and information, whereas the industries with the lowest share are transportation and warehousing, construction, the retail trade, agriculture, forestry, fishing and hunting, accommodation and food services. In terms of occupation groups, computer and mathematical occupations, education, training, and library, legal, business and financial operations, management, arts, design, entertainment, sports, and media, office and administrative support, architecture and engineering occupations are more likely to be conducted at home (Dingel & Neiman, 2020, pp. 4, 5)

The share of distance work practices varies significantly not only between counties, industries and professions but also according to factors such as education level, gender, income and salary level, type of employment, seniority and age as well as occupational specific factors and characteristics (Adams-Prassl, Boneva, Golin, & Rauh, 2020a; Saltiel, 2020; Zhang, Wang, Rauch, & Wei, 2020). According to Kerr & Thornton's estimation on the South African labor market, only 13.8% of the employed could work from home and this share mostly consists of skilled workers (65% of senior managers and 56% of professionals could work from home) since the nature of their job tasks is adequate to be conducted from home. On the other hand, since low skilled occupations mostly require tasks to be done at the workplace, no workers in low skilled occupations could work from home (Kerr & Thornton, 2020, p. 2). There are several studies indicating that distance work ability is strongly associated with the workers' educational attainment, household wealth, gender, age and income level and vulnerable groups are more likely to suffer the negative consequences of the virus as their jobs cannot be done from home (Adams-Prassl, Boneva, Golin, & Rauh, 2020b, p. 2; Saltiel, 2020, p. 116).

During the pandemic, officially closed sectors were quite limited in Turkey. Even though it was suggested by the government to work from home as much as possible, practices relating to the execution of the job were left to the preference of the employers. While daily activities in some businesses continued as it was before, flexible work and distance working practices were preferred in others. In businesses that were closed down or suspended, practices such as paid or unpaid leave, annual leave, short-work and in a limited extent of layoffs are observed. Although there are some studies on the prevalence of these practices, it should be noted that these studies have limitations in terms of scope and method. Therefore, it is very difficult to make definitive determinations and comments for the moment.

Apart from the mandatory workplace closures, some of the businesses that continue their activities have started to work from home depending on the structure and requirements of the jobs and technological facilities of the enterprises. In a study conducted with 102 managers from different sectors,[1] it has been determined that 96% of the enterprises completely (48%) or partially (47%) started to work from home and 20% of these firms had been using the method of working from home on certain days for more than a year before the pandemic while 71% have applied this method for the first time. Field and operation employees are excluded in the enterprises where partial distance work is performed. In addition, more than half of the enterprises that participated in the research are large enterprises, which facilitates the transition to distance work, especially in terms of providing technological infrastructure (Gürdil & Kavak, 2020, p. 8). In another study[2] conducted in Turkey, 40% of the participants completely and 29% partially started to work from home. On the other hand, 26% of those who do not adopt distance work send their employees on compulsory paid leave and 23% on unpaid leave. Furthermore, those who didn't start working from home and continued to work in the workplace stated that they went to the workplace alternately on certain days. There is also a difference between global and local enterprises. While 63% of the global enterprises completely and 22% partially adopted distance work, 36% of the local enterprises began completely and 30% began partially working from home (egirişim, 2020). It was stated that distance work depends on the infrastructure and digital facilities of the businesses as well as the requirements of the jobs. In a nation-wide survey[3] conducted on a large scale, 51% of the participants declared that their

1 Enterprises within the scope of the research were operating in various sectors, such as 22% in finance, 11% in manufacturing, 8% in service. The number of workers employed in the enterprises were: 20% between 0-50, 29% between 51-500, 51% 500 and above.

2 The study, conducted with 800 interviewees (67% male / 33% female) between 26th of March and 9th of April, 57% of the participants were working in the private sector, 18% in public and 13% was self-employed.

3 The research was carried out between March 23-27 with 780 companies in various sectors. 36% of the companies were micro, 33% were small, 20% were medium and 11% were large companies.

company's infrastructure and digital facilities aren't suitable for working from home, while 39% declared that they are sufficient. There are also differences observed in the transition to distance work, depending on the regions and the size of the businesses. While 52% of the firms in Istanbul state that, they have adequate facilities, this rate descends to 45% in East Marmara, 40% in the Aegean and 16% in Southeast Anatolia. The ratio of enterprises with adequate infrastructure and digital facilities is 70% in big size enterprises employing 250 or more workers and 32% in small enterprises (Hedefler için İş Dünyası Platformu, 2020). Distance work has been highly discussed during the pandemic, but as can be seen from the results, the size and the digital infrastructure of the enterprises are important factors for transition to distance work. It should be taken into account that these researches are mostly concentrated in certain sectors and regions where distance work is more applicable. As a matter of fact, 54% of the employment in Turkey was in micro (1-9 workers) and small (10-49 workers) enterprises before the pandemics, while only 27.8% was in large (250 and over workers) enterprises (TURKSTAT, 2020c). Therefore, considering the overall labor markets, the practice of distance work can't be so prevalent as mentioned in the studies above.

Starting from April 17, dismissals were banned for 3 months (Resmi Gazete, 2020a), but layoffs were encountered to a limited extent before the regulation and this regulation was not considered for workers in the informal sector. Also, according to the data announced by İŞKUR, it's seen that 220,656 people in March and 308,968 people in April applied for unemployment pay (İŞKUR, 2020a).

Annual leave (paid or unpaid) seems to be the most prevalent practice in the areas where economic activity was suspended or decreased significantly. In fact, compared with dismissal, unpaid leave has a similar outcome for the worker in terms of income, except suspending the labor contract and preventing unemployment. Another measure taken to prevent unemployment throughout the pandemic was short-time work. By the end of April, 268,717 firms and 3,044,420 employees had applied for short-time pay. The manufacturing industry was the first sector with 40%, the second one was wholesale and retail trade (15%), the third one was accommodation and food sector activities (12%) and the fourth one was education with 6% of all applications. Also, the distribution of the applications varied according to the size of the enterprise. Of all applications, 51.3% were made by the micro enterprises employing 3 or less worker, 28.3% by enterprises with 4-9 employees, 10.8% by enterprises with 10-19 employees and 6.4% by enterprises with 20-49 employees. In total, 97.3% of the short-time pay applications were made by micro or small firms (İŞKUR, 2020b). This data on short-time pay also provides an indication of which businesses are at risk.

3. Turkish Labor Market: Risks and Insights

In order to determine the impacts of the pandemic on labor markets and to develop appropriate policy recommendations, researches on labor markets have been carried out in many countries. These studies mainly focus on the prevalence and sectoral distribution of COVID-19 induced job and income losses and identification of the groups that were most adversely affected in this period. According to these studies, the pandemic is expected to lead to an unemployment increase that exceeds the Great Depression in terms of its effects on employment volume. In the USA, for instance, it is estimated that 20 million workers have lost their jobs due to COVID-19 outbreak (Coibion, Gorodnichenko, & Weber, 2020). It is understood from the researches that job and income losses are commonly observed in the retail, entertainment, tourism and accommodation sectors that mainly consist of small businesses in which self-employed, temporary and unregistered employment models are widespread (Bircan et al., 2020). In particular, it is stated that small businesses bear the burden of the COVID-19 crisis (Bartik et al., 2020, pp. 2-3) that the majority of the small businesses are at risk due to quarantine measures and loss of demand and income, and accordingly, most of them have laid off their employees or anticipate doing so (Small Business Investor Alliance, 2020, p. 2). Therefore, it is thought that the negative economic consequences of the pandemic and its chain effects are particularly harsh for informal workers, younger workers, women and other disadvantaged groups, low-income households, self employed and precarious workers, those with unstable employment relationships and lower labor income (Adams-Prassl et al., 2020b, p. 2; Yeyati & Sartorio, 2020). Also, researches reveal that the effects of the pandemic on labor markets vary from country to country within the framework of country-specific structural differences (Koczan & Plekhanov, 2020) and draw attention to the risk of further deepening inequalities in countries where problems such as poverty, unemployment and insecurity are already intense (Adams-Prassl, et al, 2020a; Adams-Prassl et al., 2020b). Therefore, the risks on the Turkish labor market should be evaluated considering its specific conditions and structural characteristics.

In Turkey, the unemployment rate was 13.7% as of 2019. The OECD projects that this figure will increase to 15.6% in 2020 and 14.2% in 2021 if the outbreak does not recur. If the outbreak erupts in a second wave, it will reach 16.8% in 2020 and 16.1% in 2021 (OECD, 2020a, pp. 320-321). The most recent unemployment rate was declared in April 2020 at 12.8%, but this ratio should be evaluated from a broader perspective, because of the decrease in the employment rate; (There is a 4.9 point decrease compared to the same period of the

previous year) (TURKSTAT, 2020d). The main reason for the decline in unemployment together with the employment rate is the decrease in labor force participation, which is an ongoing problem of the Turkish labor market. During March and April, social and economic life was suspended because of the pandemic and people were afraid even to leave their houses, they were shocked by the uncertainty. Besides, many businesses were closed or suspended their activities; the employment opportunities were also limited. In such circumstances, it is quite natural that people don't make any attempt to seek a job, which pushes them out of the labor force according to the statistics. Analyzing the reasons for not participating in the labor force becomes more important, in such a case. The number of people out of the labor force who aren't seeking for a job, but available to start working was 3,207 thousand in February, which increased to 3,728 thousand in March and 4,460 in April (TURKSTAT, 2020e; TURKSTAT, 2020d). More than 1,200 thousand people have been pushed out of the labor market. Most of these people should be counted in unemployment figures. Also, since dismissals are officially banned starting from the April 17, job losses have been postponed for registered employees, but the risk remains. High levels of job losses are expected in the near future, especially in the sectors for which demand drops are harsh due to the outbreak.

The actual working hours data also reveal a decrease in working hours and a significant increase in the number of people who are employed but not at work by sector, occupation and employment groups. As in the statistics declared by TURKSTAT, 5,157 thousand people weren't at work in April 2020, compared with the same period of the previous year (633 thousand), which is a remarkable increase thought to be caused by the outbreak. With a slight increase through February (963 thousand), March (2,258 thousand) and April (3,362 thousand), the highest numbers were observed in the service sector. Compared to the figures in previous years, there was no particular difference in the agriculture sector, while there was a huge difference between April 2019 (77 thousand) and April 2020 (1,293 thousand) in the industry sector. An increase in the construction sector is also observed, although not very high (175 thousand). According to occupational groups, the vast majority of those who are not at work are service and sales workers (1,053 thousand), professionals (893 thousand), craft and related trade workers (642 thousand) and workers in jobs that don't require qualification (625 thousand) (TURKSTAT, 2020c).

In Turkey, the labor market risks have emerged as health risk and income/unemployment risk as in many other parts of the world.

Risks by Occupational Health and Safety

Occupational health and safety risks have become related primarily to the risk of contamination by the virus during the pandemic. Since the contamination risk is associated not only with the requirement of physical interaction but also with the potential of whether the job is feasible to be conducted from home, health risks differ between occupations and sectors -reflecting inequalities. According to a research conducted in this framework, managers and professionals have the lowest health risk in all occupation groups as well as agricultural workers with the lowest physical interaction required in the workplace. In terms of sectoral classification, it is understood that private households have the lowest score of physical interaction followed by the finance sector risk since it requires a lower level of physical interaction and has the highest share of workers who could work from home. By contrast, the health sector has the highest score for health risk because it requires the highest physical interaction and the lowest potential to be conducted from home. Food trade and the hotel and restaurant sectors also have a high rank of physical interaction (Bhorat, Thornton, Köhler, & Oosthuizen, 2020).

During the pandemic, especially the blue-collar, precarious workers and workers in the gig economy have been forced to make a choice between disease and loss of income all over the world. Although this dilemma is not felt much in European countries, it has turned into a crisis in the United States. While Instacart gig workers refused to accept orders from the delivery app, Amazon warehouse workers in some cities quit jobs and Whole Foods workers staged a sick-out demanding double pay and free virus testing. Trade unions all over the country are discussing a massive, nationwide strike (Gordon, Gurley, Ongweso & Pearson, 2020).

At the beginning of the outbreak, activities in some sectors were stopped and some enterprises started to work from home in Turkey. On the other hand, as the "voluntary quarantine" policy was adopted, while some people had the opportunity to isolate, many people continued to work during this period. Businesses that are not suitable for distance working due to the nature of the work, in manufacturing and enterprises providing direct service (markets, pharmacies, bakeries, municipal services, cargo, etc.) and those working in the health sector continued to work outside while some of the population was safe inside.

The first visible inequality appeared between white-collar and blue-collar workers, which came up especially from the nature of the work they were doing. Because the jobs of white-collar workers are more suitable for distance working, they could easily continue working from home while blue-collar workers were still in their workplaces, facing the risk of contamination. Moreover, this binary practice is sometimes observed even in the same workplace.

In a research conducted by DİSK among its members (130 thousand), it has been determined that production was interrupted or stopped in 56 workplaces where 13,754 DİSK member workers were employed. In other enterprises where the production continued (about 90% of the workers), as of April, 27,628 members were under quarantine, 535 member's COVID-19 tests were positive, 73 people recovered, while 4 people died (DİSK, 2020, p.6).

Businesses with the highest positive cases are metal (32 out of 123 unionized workplaces), general affairs (35 out of 375 unionized workplaces), food, defense and security, textile, ready-made clothing and leather (DİSK, 2020, p.6-7). Also, markets, grocery stores, bakeries, pharmacies that continue their activities despite the arrangement of working hours, municipal services (especially cleaning staff) and cargo workers whose workloads have increased significantly during the isolation period, face the risk of contamination.

Member unions reported that an increase in positive cases has been observed, since printing house employees are working without protective equipment and physical distancing rules are not observed, no occupational health and safety measures are taken in the mines, the measures taken in the construction sector are inadequate and in the food industry, masks and gloves distributed to overtime workers are inadequate, and physical distance measures aren't taken in either the protection area or the dining halls (DİSK, 2020, p.15-16).

As a matter of fact, while in some enterprises occupational health and safety rules are provided by making necessary arrangements, in most of them, none or half measures are taken. In case of insufficiency in occupational health and safety measures or detecting positive cases in the workplace, workers have the right to refrain from working due to Article 13 of Law No. 6331. Although such practices are rare but observed in unionized sectors, it's presumed that the fear of losing their job prevents workers from using these rights.

Risks by Employment and Income

The high uncertainty, which has arisen from the pandemic and the measures taken against the spread of it, create different risks in terms of employment groups (employees, employers and self-employed), as well as reveal some inequalities within these groups. During the pandemic, disease prevention mainly depends on the ability of being isolated, and isolation depends primarily on the financial means of individuals. Therefore, the inequality between the employee and employer, which is the basic inequality of the employment relations, becomes more evident during this period. The first risk posed by inequality is virus contamination, and the second is the loss of income. In both ways, workers are at a higher risk than employers.

On the other hand, there are also various inequalities among the groups of the employees who most commonly have no other income than the wage to make a living and have a high level of indebtedness. Arising from the segmented structure of the labor market, these inequalities emerge generally between the private/public sector, white/blue collar workers, secure/precarious work, unionized/non-unionized workers and at the sectoral level.

While public sector employees, except some of the contract workers, did not face any risk of income loss and employment during this period, they also had the opportunity to isolate and avoid disease to a certain extent starting from the flexible working regime implemented on 22 March with the Presidential Circular. On the other hand, private sector employees faced different implementations. These are continuing to work in the workplace, working from home, flexible/reversible work, annual leave, using paid or unpaid leave, short work practices and layoffs. These implementations, which are very difficult to determine the prevalence of during this period, present different risks. As mentioned, the risk of income loss is low for workers who continue to work, but the health risk increases. While the risk of income loss is high for workers who are on unpaid leave, switch to a short-working regime or lose their jobs, the health risk is reduced. Workers, who use annual leave and paid leave, are not exposed to both of the risks.

On the other hand, employers are thought to face less risk than the employees, but there are also some inequalities within this group. These inequalities can basically depend on business sizes as well as sectoral differences. According to a survey carried out early in the outbreak across Turkey, with the participation of 780 companies, 78% of micro and 77% of small enterprises, 61% of medium enterprises and 54% of large enterprises stated that they were greatly affected by the outbreak. While economic activity was completely stopped in 11% of large companies, this rate rose to 36% in small enterprises and 38% in micro-enterprises (Hedefler için İş Dünyası Platformu, 2020). When one considers the big share of micro (54%) and small (18.3%) enterprises in employment, the extent of the employment risk faced can be better understood (TURKSTAT, 2020c). More than half of the firms in the survey declared that their revenues have decreased by more than 50%. The worst impact is observed in the tourism, media, communication and advertising sectors, and the least affected sectors are finance, machinery and equipment, agriculture and livestock. According to the index[4] developed based on the advantage and durability criteria of enterprises in terms of

4 The level of advantage includes elements (to what extent the sector and the supply chain has been affected by the negative effects of COVID-19) beyond the control of the company. Advantageous firms are firms that are less affected by the crisis. The level of durability includes elements that are under the control of the company (strategic planning, crisis planning, etc.)

COVID-19, 59% of the enterprises are disadvantaged for natural reasons against the crisis and one out of three disadvantaged companies exhibit above average durability in terms of the measures taken against the crisis. It has been determined that 20% of the firms are disadvantageous/durable, 39% are disadvantageous/non-durable, 20% are advantageous/durable and 17% are advantageous/non-durable (Hedefler için İş Dünyası Platformu, 2020). The supports for small and medium sized enterprises, which are highly affected by the pandemic, are postponing their debts and trying to create new borrowing opportunities.

The self employed, craftsmen and artisans are other groups, which face a high-income risk, which could turn to employment risk in the future. The majority of approximately 212 thousand enterprises whose activities were stopped with the circulars published on March 16 and 21, constitute craftsmen/artisans and small businesses. It is estimated that approximately 1.4 million employees, including those working in these enterprises, were negatively affected by the cessation of their commercial activities (Yükseler, 2020). While the business owners bear the ongoing costs, they are also deprived of any direct income support within the framework of the announced measure packages. It is clear that craftsmen/artisans who have no alternative other than credit and private or commercial borrowing, will have difficulty in maintaining their activities in the upcoming period.

The long-existing unequal structure among the employment groups is also observed during the pandemic. In addition to these inequalities, risks also differ among economic sectors and specific labor groups in terms of labor market segmentation.

3.1. Most Vulnerable Sectors during Pandemic

At a global level, all sectors have been affected to some extent by demand declines and lockdowns due to the outbreak. In the early COVID-19 literature, directly (primarily) affected industries by the lockdowns were determined as follows: restaurants and bars, travel and transportation, entertainment (e.g., casinos and amusement parks), personal services (e.g., dentists, daycare providers, barbers), other sensitive retail (e.g., department stores and car dealers), and sensitive manufacturing (e.g., aircraft and car manufacturing) (Dey & Loewenstein, 2020, p. 2).

In the automotive sector, around 42% of direct manufacturing jobs and 13.8 million workers in the wider supply chain were affected in the EU (ACEA, 2020 from ILO, 2020b, p.3), at least 150 thousand unionized workers and a lot more non-unionized workers were affected in the US (ILO, 2020b, p.3). Many automotive companies all over the world repurposed production and began to produce medical equipment (masks, disinfectant, ventilators, protective gear, hospital

beds) just like BYD in China, General Motor and Ford Motor in the US, Volkswagen, FCA and Skoda in the EU, and Mahindra group and Mercedes in India (ILO, 2020b, p.4). The aviation industry, which supports 10.2 million direct jobs and 10 million indirect jobs worldwide, faced a high risk during the pandemic, and the recovery process of the industry is estimated to be slow (ILO, 2020c). Revenues decreased 40-100 percent in road transportation sector during the pandemic where most of the drivers in many countries are self-employed. These drivers are worried about the sustainability of their businesses because of the ongoing costs and decline in contracts (ILO, 2020d, p.2). Tourism is a labor-intensive sector accounting for 330 million jobs (direct/indirect) at the global level, which faced a high risk because of the measures taken to slow down the pandemic. Hotels, restaurants, tour operators, airlines and cruise ships have suspended their activities. After the restrictions are lifted, it is anticipated that people will continue to abstain from purchasing these services. In this case domestic tourism may recover faster than international tourism (ILO, 2020e, p.1-2). The decreases in production due to the raw material supply and drop in sales brought about by job losses have also been seen in the textile sector (ILO, 2020f, p.2-3). Public emergency, health and food retail sector workers have faced the occupational health and safety risk rather than unemployment and income risk (ILO, 2020g; ILO, 2020h; ILO, 2020i).

Demir has made an overall economic assessment for Turkey on sectoral basis using the data gained from the Ministry of Treasury and Finance, rating exposure levels of the sectors from COVID-19 and recovery time frame (2020, p. 8). Deloitte also made a similar assessment, using the interaction data gathered from digital platforms (Deloitte, 2020a, p. 2). The report gives a more detailed division of the economic activities but as mentioned, it only comprises the digital interactions not the whole (Deloitte, 2020b, p. 6).

Table.3. Sectors and COVID-19

Sector	% share in GDP (2018)	% share in employment (2019)	Exposure rate from COVID-19	Recovery process
Agriculture, Forestry and Fishing	**5.82**	**18.15**	Low	Fast
Industry	**22.30**	**19.80**	High	Slow
Mining and Quarrying	1.00	0.44	High	Slow
Manufacturing	19.05	18.35	High	Slow
Electricity, Gas, Steam, Air Conditioning Supply	1.35	1.01	High	Fast
Water Supply and Sewerage	**0.90**		Low	Fast
Construction	**7.17**	**5.52**	High	Slow
Service	**54.26**	**56.53**	High	Slow
Wholesale and Retail Trade	12.09	13.96	High	Fast
Transport and Storage	8.19	4.47	High	Fast

Accommodation and Food Service Activities	3.12	6.06	High	Slow
Information and Communication	2.47	0.83	Low	Fast
Financial and Insurance Activities	3.00	1.05	Low	Fast
Real Estate Activities	6.79	1.06	High	Slow
Professional, Scientific and Technical Activities	2.33	3.15	Low	Fast
Administrative and Support Service Activities	2.85	3.43	High	Slow
Public Administration and Defense; Compulsory Social Security	4.85	6.91	High	Slow
Education	4.17	6.41	Low	Fast
Human Health and Social Work Activities	2.49	5.31	Low	Medium
Arts, Entertainment and Recreation	0.91	0.61	High	Slow
Other Social, Community and Personal Service Activities	0.95	3.27	Unknown	Unknown
TURKSTAT, 2020c and Demir, 2020, p. 8.				

The most vulnerable sector seems to be the service sector where most of the sub-sectors are under high risk and recovery processes are slow. The sub-sectors highly affected by the pandemic are wholesale and retail trade, transport and storage, accommodation and food service activities, arts, entertainment and recreation and real estate activities. Although the estimated recovery process is fast in wholesale and retail trade, transport and storage, it is slow in arts, entertainment and recreation, accommodation and food services and real estate activities, which makes these sectors more vulnerable. The economic impact of the pandemic is low in information and communication, finance and insurance and education sectors.

The service sector has the highest share in employment and labor markets of risky sub-sectors, such as wholesale and retail trade, transport and storage, accommodation and food service activities, arts, entertainment and recreation, real estate activities with dual characteristics. These characteristics can also be observed widely in the construction industry, which is affected by the pandemic and the recovery process is estimated to be slow.

3.2. Labor Market Segmentation and Inequalities

Labor market segmentation[5] refers to the dual structure of labor markets as the primary and secondary market in terms of working conditions, wages, promotional opportunities and market institutions for the groups of workers that are divided by various factors such as race, sex, educational credentials, industry, etc. (Reich, Gordon, & Edwards, 1973, pp. 359, 360).

5 Historically rooted in the era of monopoly capitalism in the 19th century, the dualist structure came up for discussion in the late 60's, establishing the segmented labor market theory (Dickens & Lang, 1988, p.129). Doeringer and Piore define the theory as, "… the labor market ought to be conceived as divided into two parts: primary and secondary market. Jobs in the possess several of the following characteristics: high wages, good working conditions, employment stability, chances of advancement, equity, and due process in work rules. Jobs in the secondary market, in contrast, tend to have low wages and fringe benefits, poor working conditions, high labor turnover, little chance of advancement, and often arbitrary and capricious supervision." (1970, p.271).

The primary market[6] contains the "good" jobs that include both the upper tier of white-collar jobs as professionals, sales workers, clerks and the lower tier blue-collar jobs such as foremen and protection workers. The secondary market, on the other hand, comprises frequently repeated unemployment and unstable employment patterns in "bad" jobs which mostly require unskilled workers with no training and low wages. Occupations presenting these characteristics typically employ blue-collar workers such as laborers and operators (Anderson, Butler, & Sloan, 1987, p. 584). Also, migrants, minorities, women and young people typically comprise the disadvantaged workers of the secondary market (Doeringer & Piore, 1970, pp. 273-274; Reich et al., 1973, p. 359). The categorization of jobs as "good" and "bad" is reflected in the quality of employment and affects the income and productivity of those employed. Besides, socio-economic problems such as unemployment, discrimination and income distribution injustice are closely related to the segmented structure (Kumaş & Çağlar, 2017, p. 56). Distinguished by different labor market appearances and behavioral procedures among separate submarkets or segments, the division of the labor market and the differences among worker groups have not disappeared with time, in contrast, they have become the characteristics of labor markets. As Kalleberg notes, trends in labor markets are observed in two main axes: the spread of bad jobs which go along with higher polarization or increased inequality in labor markets, and more precariousness for all workers (Kalleberg, 2013, p. 703). The segmented labor market theory has also been adopted by the ILO as one of the approaches to observe in the recent developments of world labor markets. In a report by the ILO[7] about the 2020 trends of employment, it's stated that having paid work doesn't guarantee decent working conditions and adequate income for more than 3 million people who are employed informally and have little or no access to social protection (ILO, 2020k, p.12). To the extent that stratification has been one of the main characteristics of the global labor markets, we offer that the dual structure of the labor markets is an appropriate approach to understanding the COVID-19 induced risks.

Following the segmented labor market approach, it is possible to categorize the Turkish labor markets as the good jobs of the primary market and the bad jobs of the secondary

6 The primary market is also segmented into upper-tier and lower-tier jobs. The upper-tier, which consists of professional and managerial positions, is characterized by higher pay and status, privately negotiated wages, economic and social security, greater promotion opportunities, and higher turnover and mobility associated with advancement. In the lower-tier of the primary sector, in which the wages are still high (typically negotiated by collective bargaining), there is lower educational attainment, turnover is slow and promotion is more closely related to seniority than productivity (Piore, 1972, pp. 2, 3, 7).

7 As highlighted by the ILO, the phenomenon of labor market segmentation may be caused from the particularities of labor market institutions, such as governing contractual arrangements (segmentation along permanent/temporary nature of employment contracts), from lack of enforcement (segmentation along formal/informal line), and types of workers concerned (such as migrant and non-migrant workers) (ILO, 2020j).

market. From this perspective, we interpret that the primary market covers the permanent staff of the public sector (since they have regular income on full-time employment patterns and job security with good working conditions) and both upper-tier white-collar workers such as professionals and managers, and lower-tier blue-collar workers with high advancement opportunities in large enterprises and finally those who work in enterprises with high-level unionization rates. On the other hand, contract workers, unregistered workers, temporary workers and subcontractors in the public sector and less secure jobs with atypical working patterns of the competitive industries and those who work in small enterprises in the private sector or non-unionized firms can be listed as the bad jobs of the secondary market. In addition, women, less-educated workers and young workers are more likely to be involved in the secondary labor market in Turkey (Kumaş & Çağlar, 2017, p. 82)

In this context, there are 3,103 thousand civil servants (4/c) and 1,608 thousand workers in a 4/a status working in the public sector in Turkey, which constitutes 16.8% of employment (Yükseler, 2020). Professionals and managers are 16.6% of the employment while 20.4% is employed as service and sales workers and 54% of employees are working in micro enterprises, while only 27.8% is working in enterprises where 50 or more workers are employed. Although it varies according to the sectors, the rate of informal employment is 34.5% and it is 49.7% for unskilled workers, which creates a double risk for these employees. The informal employment rate in micro enterprises is 58.4% while it's 2.9% in large companies (TURKSTAT, 2020c). The atypical forms of work, which provide flexibility to the labor markets, are limited in Turkey compared to other countries. Instead, market flexibility is provided by informal employment. Also, the unionization rate is low (13.8% in January 2020) and mostly limited by the public sector, industry and large enterprises (Resmi Gazete, 2020b).

The segmented labor market approach not only reveals the main inequalities in labor markets through the formal and informal sector, standard and non-standard workers, unionized and non-unionized sector, white-collar and blue-collar workers etc. but also provides a significant framework for understanding the inequalities related to pandemic induced risks. It is possible to specify that those who are involved in the secondary labor market are primarily affected by the negative consequences of the pandemic in Turkey as well. Probably, the risks faced by workers in the non-unionized workplaces of sub-industries or contract manufacturing enterprises with lower wages and non-social security were much more rigid and harsh than the mostly unionized high-income workers of core industrial sectors.

The unequal character of the risks posed by the pandemic is largely due to inequalities associated with the segmented structure of the labor markets and also carries the risk of deepening the existing inequalities. Thus, it can be stated that precarious, non-standard employees and disadvantaged groups such as young people, are the most at risk groups at the global level and also in Turkey.

Precarious Workers under High Risk

As researches in many countries reveal, even though the pandemic affects almost the entire labor force in many ways, the magnitude of this effect varies across the labor groups and leaves those at the most vulnerable such as women, the young and immigrant workers facing a higher risk. Starting from the early stages of the pandemic, the ones facing the highest risk of job and income losses were low-waged, low-skilled, non-standard, part-time or temporary employees with lower levels of educational attainment. These groups are likely very limited in their ability to distance work and are concentrated in occupations that suffer from high turnover and poor working conditions (Berube & Bateman, 2020). The most affected sector was accommodation and food services where predominantly female, low-skilled, young and immigrant workers are employed with part-time or temporary contracts. Also, those who have lost their jobs are mostly the ones in the low-income group (Byrne, Coates, Keenan, & McIndoe-Calder, 2020). Job losses and decreases in working hours are higher in lower-paying occupations compared to higher-paying occupations depending on whether these jobs are suitable for distance work (see Brynjolfsson et al., 2020; Dingel & Neiman, 2020; Saltiel, 2020) or in certain sectors with severe demand decreases (Cortes, 2020, p. 7). For example, in the education sector, after the school closures, unequal practices emerged among teachers and support staff (cleaners, catering workers). While regular teachers continue to receive their salaries, contract teachers and support staff have lost their jobs (ILO, 2020l, p.3).

Early researches on COVID-19's impact on labor markets focus mainly on the changes in work arrangements of workers in the regular employment relationship. Measures against the economic consequences of the pandemic are also taken considering registered, standard workers. There has been less attention on those who are identified as self-employed, non-standard, independent workers, freelancers, or gig workers. Workers under the forms of subcontracted labor, such as temporary workers, temporary agency workers, zero-hours contract workers and gig economy workers who are assumed to be self-employed aren't even officially laid off. They have only heard, "Sorry, there is no more work available". In many countries, these workers are already excluded from social protection (Berg, 2020), and remained outside the socio-economic measures taken by governments during the pandemic.

In Turkey, a research about the quality of employment in the private service sector conducted before the pandemic (2017), determined that only 10.5% of those working in the private service sector work in "good jobs". Of those who work in good jobs, 62.5% are male and 37.5% are female. When the ones working in bad jobs are examined by age group, it has been observed that 97.7% of the 15-24 age group are employed in bad jobs. There is also a correlation between education level and employment quality as it has been identified that about 75% of those who work in good jobs have an associate degree or more, while the share of primary school graduates is only 1.6%. The proportion of those whose education level is primary school or less is 42.6%, secondary education is 32.1% and higher education is 25.3% in employment up to 2019. Also, more than half of the ones working in good jobs are employed in medium and large (50 or more workers) companies while in 2019 only 30% of the workers were employed by these companies in the service sector. When the sub-sectors were examined, 98.8% of those working in accommodation and food services activities, 95.5% of those in real estate activities were employed in bad jobs while the ratio of good jobs is higher in finance and insurance, information and communication activities. Further, 98.3% of service and sales workers and 99.2% of unskilled workers were in bad jobs (Kumaş & Çağlar, 2017, p. 69-70; TURKSAT, 2020c). This segmented structure of the service sector doubles the COVID-19 induced risks, as the service sector was hit by a massive shock through the pandemic.

Since the mobility of employees in "good jobs" and better occupations is higher than those in "bad jobs" and low skill occupations, it is clear that the recovery from the COVID-19 induced economic shock will be faster and easier for them. As Kramer & Kramer noted, the ability of faster recovery and mobilization worsen the segmentation of the labor market and hence, the structural inequalities should be taken into account for the strategies for the socio-economic recovery following the pandemic. Otherwise, probably the polarization in labor markets will increase, while the distinction between good jobs and bad jobs, core and periphery jobs, and primary and secondary jobs expands and the gap gets wider to include segmentation by occupational groups of which the division is related to gender, racial and ethnic inequalities (Kramer & Kramer, 2020).

As A Disadvantaged Group, A Dark Future Awaits Young People

Young people are counted as a disadvantaged group in labor markets because of the high unemployment rates and the problems they face in entering the labor markets. Before the pandemic 67.6 million young people were unemployed and 267 million were not in employment, education or training (NEET). The unemployment rate was 13.1% among young women and 14% for men while 4.3% among adult women and 3.8% for men (ILO,

2020m, p.6-7). Furthermore, young workers are under high risk in labor markets, because of informal employment (77% of them, nearly 328 million young workers are in informal jobs). During the pandemic, over one in six young people stopped working and the rest's working hours have fallen by 23% (ILO, 2020m, p.2). The pandemic has multidimensional effects on young people as interruption of educational and training facilities can reduce potential employment opportunities in the future, job losses and the collapse of businesses cause unemployment and loss of income, therefore finding work and (re-)entering the labor market will be more difficult in the future (ILO, 2020m, p.6)

Youth unemployment is an important feature of the Turkish labor market and the most vulnerable sectors have the highest youth employment with 24.6% in arts, entertainment and recreation, 21.9% in accommodation and food service and 17.5% in wholesale and retail trade by the end of January 2020. At the same time arts, entertainment and recreation (2019 annual: 40.1%), accommodation and food service (2019 annual: 32.7%) have the highest informal employment rates among all sectors except agriculture, forestry and fishing which makes these sectors more vulnerable in terms of employment during the pandemic (TURKSTAT, 2020c). Most young workers are employed in temporary jobs in these sectors. Also, 52.7% of young unemployed workers had been employed in the service sector where employment opportunities are decreased because of the pandemic.

Young people face problems especially in the transition from education to working life and they work in temporary and precarious jobs before moving on to their first regular jobs. In a study conducted in 2016, only 14% of young people (15-34 years old) found a job within the first six months while 19% couldn't get their first job for more than three years. After their education has ended, 23.3% of the employees who have worked for more than three months in their first job have been found to be service and salesperson and 16.9% have been working in jobs that require little or no qualification (TURKSTAT, 2016). These pre-pandemic features seem to deepen the disadvantages of young people.

Due to the household income losses by the pandemic, young people in the education age may leave education for working. Disruption of education will reduce their employability and their opportunity of finding good jobs in the future. In January 2020 the ratio of NEET's were 25.7% and it seems to increase in the following moths (TURKSTAT, 2020a)

Segmentation in the labor markets and secondary labor groups have always been the factors that ensure the flexibility of the labor markets. While these groups are the ready labor force for the markets, they can be easily charged off if not needed. These workers are the last

hired in economic growth periods and the first to be fired during the contraction periods (Stanford, 2019, p.166).

COVID-19 induced economic shock may have permanent consequences on employment. To prevent these impacts, it is an urgent necessity to implement support packages accordingly, covering both the precarious, informal and the discouraged workers as well as to develop further employment policies for young people.

4. Conclusion

The COVID-19 pandemic is an unprecedented event for the world with social, psychological and economic dimensions as well as an enormous public health risk. However, it wasn't unpredictable in terms of its consequences. As in many previous economic crises, wars and chaos, its effects are closely related to current inequalities reflecting the structural features of the social order and main trends. The world has been in a transformation since the 1970s, driven by the rapid technological improvements and globalization process through a neoliberal perspective resulting in the privatization and deregulation of markets, which is characterized by uncertainty, precariousness and temporariness. While the scope of social protection is getting narrower in many societies, it has become less and less accessible to the broader segments of society. The pandemic period has revealed the existing risks, especially in terms of its socio-economic consequences, and made the social stratification related inequalities visible. These inequalities in labor markets differ according to the unique structures of the countries.

Considering the labor markets in Turkey, it's seen that the service sector has a dominant position in employment which is harshly affected by the pandemic. Also, this sector has the highest informal employment rate following the agriculture sector and the highest youth employment rate, youth being considered as the riskiest group. The prevailing character of bad jobs in the service sector makes the workers in this sector more vulnerable. It is anticipated that the problem of creating new employment areas for a long time will become impossible due to the uncertainty induced by the pandemic. In addition, especially the small enterprises that cover the majority of the employment in Turkey are seen to be under high risk, as they were unprepared for such a crisis and they weren't financially strong enough to handle various costs incurred during the pandemic. Measures taken to slow down the socio-economic impacts of the pandemic were immediate and temporary measures, that aren't enough to handle the current and potential risks. It is necessary to make an urgent and detailed risk and damage assessment of the labor markets, in line with these evaluations. Only after this comprehensive assessment, can appropriate policies be developed.

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CHAPTER 3.2.

WOMEN'S 'CONNECTED LIVES' DURING THE COVID-19 PANDEMIC: FROM HOME TO THE ECONOMY

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Abstract

COVID-19 became a part of our lives as a global health and economic crisis and it brought with it a new reality where individuals feel an increased need for each other. As a result of quarantining, social distancing and hygiene precautions, "home" became the safest place of all, which in turn increased the effort and burden of caring for family members. The crisis increased the visibility of the double burden that women shoulder by both working at jobs and providing care at home.

The purpose of this study is to reveal the intersections of domestic life and economy due to the new burdens that women, who are "working from home" or "unemployed" in the COVID-19 process, had to shoulder in the context of care work. Care work sustains life and involves intimate relationships. Intimate relationships that surround domestic life extend from relationships between family members to parents-children-caregivers or patients and doctors. Intimate relationships, by nature, include the irrational as well as the rational. Yet the fact that care work is provided for free in the domestic realm results in this type of work to be excluded by mainstream economics, to be deemed a nonmarket service, and to be only included in the irrational realm. Economic sociology also stands close to economics and focuses more on phenomena within the market. The pandemic has clearly showed that this approach is deficient. From this premise, the foundation of this study is the *'connected lives'* approach developed by Viviana Zelizer as an alternative in economic sociology, which explains the relationality between intimate relationships and the economy. Zelizer's approach is based on a series of negotiations that shape individuals' obligations and rights inside or outside the home, in the framework of this relationality that includes shared understandings and emotions. Pre-pandemic established negotiations in the context of care work that allow women to participate in labor markets have changed. Accordingly, the study tries to exhibit the way these new negotiations are shaping the relationship between domestic life and the economy, and to present foresight on whether new negotiations will continue or not. It is understood that this new way of sharing care work within the household can bring some opportunities as well as the risk of reproducing and reinforcing existing problems.

Keywords: COVID-19 pandemic, gender, paid-unpaid care work, connected lives, negotiation, shared understanding, risk.

1. Introduction

The COVID-19 pandemic is a global crisis that effects social life all around the world. The rising risks and uncertainties due to the pandemic increased the need individuals feel for each other. Zelizer's concept of *'connected lives'* explains the relationality between intimate relationships and the economy, and metaphorically refers to our lives becoming relational due to the pandemic as well. The declaration of the pandemic, quarantining, social isolation and hygiene precautions turned 'homes' into the safest spaces of all, meanwhile complicating and changing the practices individuals use to obtain the care they need or provide the care needed from them. The possibility of a care crisis due to increased needs in this period is also voiced. Therefore, all types of care work have gained importance in this process.

Care work[1] is defined as the provision for the physical, psychological, emotional and developmental needs of one or more people, and it consists of paid and unpaid activities which are often interwoven. These activities mostly include unpaid care work such as child, patient and disability care, domestic work such as cooking and cleaning, as well as paid personal services offered by housekeepers, caregivers of the children and patients, nurses, doctors and teachers.

These services and especially the unpaid ones are usually provided by women. According to estimates 75% of all the care work globally is done by women, who spend 3.2 hours longer than men on care work on a daily basis (ILO, 2018). Working from home, school and day care center closures, risks of and limitations on eating out, difficulties in obtaining prepared meals, impossibility of hiring housekeepers and caregivers for the children, the elderly and patients in this process made care work an important part of the crisis in women's lives. These circumstances increased the visibility of women's problem of the double burden of working both at jobs and at home. Although it is observed that men are more involved in care work now than they were before the pandemic, it is calculated that women spend four times more on care work than men (UNDP, 2020).

Another aspect of this issue is the disregard for the relationship between care work and the economy. Whether during crises or not, the relationship between gender, care work and the economy is an important subject of discussion. The rationale for this disregard is the involvement of emotionality in care work; the belief that the rational and the irrational must be considered as separate worlds. Yet the time spent on care work amounts to about 9% of the GDP when calculated with the hourly minimum wage. In Turkey this rate is 10.6% for women

1 The term care work includes domestic work throughout this study unless a distinction is necessary.

and 2.7% for men (ILO, 2018). The potential contribution of these vital services to the GDP if they were paid reveals the magnitude of the negligence caused by assigning these to the domain of women and emotions. And the size of the disregard is not limited to this. The interactions between care work and the economy are also overlooked. Relationships between care givers and receivers have the potential to directly affect the economy. It is well known that according to mainstream economics unpaid care work, which sustains life, is nonmarket work that does not belong to the rational realm. This tendency is labeled as androcentric or male-centered, and considered to be a *mistaken assumption* for excluding women and their activities from the economy (England, 2002; Folbre & England, 2005; Hochschild, 2003, p.31; Milkman & Townsley, 1995). Another concern is the fact that paid care work is considered unworthy even if not nonmarket. Also in economic sociology, despite several decades of efforts, relationships between women, home and work are not included sufficiently in economics research (England & Folbre, 2005; Zelizer, 2002).

In this framework the *'connective lives'* approach, which reveals how interwoven these intimate relationships and the economy are by creating an *alternative* in economic sociology, is an important *tool* for explaining care work. This approach was developed by Zelizer (2005, 2011) as a perspective against the *'separate spheres/hostile worlds'* approach that see these interwoven worlds as two separate realms. The concept of relational work that explains the approach uses how people negotiate the intersections between intimate and economic relations. This way it can clearly show how shared understandings and interpersonal relations infuse and shape the *ostensibly* impersonal worlds of economic activities. Intimate relationships that extend from relationships between family members to parent-child-caregiver or patient-doctor relationships create the backdrop for domestic and nondomestic *'negotiations'*.

As mentioned above, the pandemic has been a period shaped by care needs and care work. In this context the interaction between the concentration and disconnection of intimate relationships and economic activities started to be reshaped. And therefore the burden on women's shoulders, which includes unpaid domestic and care work that is claimed to be nonmarket as well as paid care work, is *being reshaped and new fields of negotiations are opening*.

The study will first focus on the place of gender and care work as a sphere that is claimed to be nonmarket within mainstream economics and economic sociology, and then on the Zelizer's alternative connected lives approach. From this perspective we will explain the way care work that is assigned to women is shaped by new negotiations and how emotions shape

the relationship between domestic life and the economy. These explanations mainly include married women with children who are working from home, on leave or unemployed. Finally, we will try to offer foresight into whether new negotiations will persist in the context of the opportunities and risks introduced with new arrangements at home.

2. Bringing Back Gender and Care Work to the Economy

2.1. The Mainstream Perspective of Economics and Economic Sociology

Care work is defined as the provision for the physical, psychological, emotional and developmental needs of one or more people. Care relationships involve continuous and intense personal attention that improves the wellbeing of receivers (Standing, 2001, p.17; Zelizer, 2005, p.162). According to this definition, care work involves emotionality and intimate relationships between the caregiver and receiver, it belongs to the home, and it is gendered as is.

And exactly for this reason, it was widely accepted for economists to exclude gender and care work from their analyses and consider them *nonmarket*. Yet *"economic life is organized around gender in all known human societies* (Milkman & Townsley, 1994, p. 606)". It is impossible for the economy to run without care work. Economic sociology finds economics to be mistaken in its model of rational economic man, who merely looks out for his own interest and is free from emotions, because it bases its explanations on *simple mechanisms*. This approach is also criticized by feminist economists. Nelson says that *"economics is about how societies organize themselves to provide for the survival and flourishing of life"* and *"... the discipline neglects important aspects of how we support ourselves and sustain our lives. ... Human connections, human needs ... were left the other fields* (2008, p.15; 2006, p.27)".

Economic sociology on the other hand tries to explain economic actions through *complex mechanisms* that are based on the effects of shared understandings and values that embody and shape these actions as well as previous experiences and the network of relationships among actors (Guillen, Collins, England & Marshall, 2005). However economic analyses in this discipline focus more on subjects that include economic activities within the market, and base their subjects on market behavior (England and Folbre, 2005; Fligstein, 2002; Milkman & Townsley, 1994; Smelser and Swedberg, 1994; Trigilia, 2002). This understanding, which is close to mainstream economics, excludes gender and care work from economic sociology's field of study[2]. However, as clearly seen in this process, the social aspect of economics can reveal itself when home and the market overlap due to a factor such as the pandemic.

2 Zelizer thinks that one of the reasons for this is the overwhelming majority of men in economic sociology as in mainstream economics, and that most gender researchers are women. As the most important approach in the discipline, *embeddedness* is also not completely sensitive to the gender issue (Zelizer, 2011, p.5; 2002, p. 110-111).

These criticisms emphasize that economic sociology must move away from economics in this sense and include care work, which is actually a crucial component of the economy (Swedberg, 2003, s. 264): *"...Preparing food, feeding the children, cleaning the house— all of these are crucial parts of the household activities and the economy; and they should also constitute important subject matters in economic sociology."*

As an economist who studies the time and effort people put into caring for each other, Folbre points out that the separation between market and nonmarket is also reminiscent of the separation between the masculine and the feminine. Men spend significantly more time and effort than women on market jobs. Women's time on the other hand is mostly allocated for child rearing and family care. Men are breadwinners while women are caregivers. The term breadwinner refers to the money earned in the market. Care work on the other hand is unpaid on the basis of money and performance and is rewarded to a certain extent with sharing and reciprocality (Folbre, 2001 p.xi; 2010, p.254, 311). Thus gender relations also determine the qualities of care work.

The pandemic also brought up the question of whether care work, which is recognized to be the most important component of human life, is inside or outside the market. As a socially constructed category, gender is closely related to the household/home and therefore to care work. Whether we are women or men, we *"spend most of our time on the job and at home"* (England & Folbre, 2005, p. 627). However, the time spent at home and on the job, and the division of labor between women and men in the household, constitutes an order that effects life as a whole. The answers to questions such as who will welcome the children after school, who will care for sick family members and who will decide what is eaten for supper reveals the gendered aspect of care. Thus this order needs to be studied with a new alternative approach rather than the mainstream understanding. The increased burden of care work within the household in this process has reasserted this need.

2.2. The Alternative Perspective: Separate Spheres/Hostile Worlds vs. Connected Lives

Zelizer's alternative approach[3] talks about two opposite views when considering the intimate and economic relationship, which is seen as a nonmarket domain according to the mainstream perspective (2005):

3 Economic sociology is built on two basic perspectives: The first one focuses on the social structures where the economy is within the action, which is compatible with the concept of embeddedness, and the second one is the cultural perspective that focuses on the way individuals interpret economic action. Zelizer is considered to be on the cultural side of economic sociology (Smelser & Swedberg, 2005). However her approach *"has been seen as one of the few 'cultural' counterbalances of the structural approach* (Ossandon, 2019)". For other alternative approaches see Zelizer 2011, p.133.

1. Separate spheres and hostile worlds: Intimate and economic spheres are two separate entities.

2. Connected Lives: Intimate and economic spheres are connected and always coexist.

In this sense *'separate spheres'* makes a clear distinction between the rational and the emotional. And *'hostile-worlds'* argues that both of these worlds will be disturbed if they touch each other. This implies a *contamination* of the world of emotions with self-interest calculations and of a world where activity should dominate with rational acts, since *"only markets cleansed of sentiment can generate true efficiency"* (Zelizer, 2005, p.24; 2011, p.277). But *'connected lives'* also makes room for the emotional as a part of human relationships. This also allows explaining which dynamics shape those economic activities that are considered 'nonmarket or noneconomic'. In short, there is relationality instead of separation between *'rationality and emotions', 'home and work'* or *'domestic care and the economy'*.

Through this *relational work,* 'connected lives' are formed where the intimacy of the participants and the sphere of the economy are interwoven. People participate in the *construction* and *negotiation of connected lives* by blending intimacy and economic activities. Thus the concept of relational work is used to explain how people negotiate the intersections between intimate and economic relations (Bandelj, 2012, p.176; Bandelj, 2015, p.234; Zelizer, 2005, 2011). Zelizer (2012, p.146) describes the relational work approach as *"an alternative relational account of economic activity. In brief, in all economic action, I argue, people engage in the process of differentiating meaningful social relations."*

Here the relationality that Zelizer is dealing with differs from the basic understanding of economic sociology. Economic sociology fundamentally studies relationships together with *'the ownership of individual actors'* and focuses on network relationships. However, in Zelizerian relationality, which is central to the economy, *interaction* stands out. In other words, individuals have an effect on each other. This is how people gravitate towards *connected lives*. Many economic activities *create, define and sustain* social ties and incorporate culture into the daily negotiations of economic activity, as well as relationships between individuals. In economic phenomena formation, negotiation, reparation, or dissolution of economic relations are more important than the content of the ties. In this context, the importance of the process shaped by emotions, meaning and power asymmetry is emphasized. (Bandelj, 2015, p.227, 232, 33; Zelizer, 2005, p.2; 2011, p.11).

The fact that care work involves continuous and intensive personal attention in the intimate sphere places it in a different position from other domestic relationships. Care

relationships improve the wellbeing of receivers and give them satisfaction through the personal attention provided to them. Thus intimacy, which encompasses privacy, is usually an inevitable part of care work. Therefore, for Zelizer *"care counts as labor*" and she conceptualizes this as *'intimate labor'*. However, the separate-spheres perspective says that if a relationship is intimate then labor should not be involved. Unpaid care is naturally within the intimate setting (Zelizer, 2011, p.277). It is meaningful in every sense to explain economic activities with the connections between the household and its intimate relationships, including emotion and solidarity, instead of this *erroneous division*. Therefore, with Zelizer's approach it is possible to reveal the relationship between the economy and people's lives that are completely or partially limited inside their homes during the pandemic.

3. The Pandemic and Lives at Home

Thanks to slogans such as 'stay home' and 'there is life at home' as part of the social distancing measures implemented during the COVID-19 pandemic, the 'home/household' became the space that protects people from the virus. 'There is life at home' actually fits with Weber's definition of a household as *"a unit of economic maintenance"* (Swedberg, 2003, p.65). The purpose of the home/household is to sustain people's lives. The changes in family structure around the world, women entering the labor market and problems such as the aging of the population have increased the number of people who need care. The epidemics and pandemics that have erupted in recent years are increasing this number as well. These changes also prevent people from providing care for relatives and may cause a *'care deficit*' (Hochschild, 2003).[4]

COVID-19 has made this deficit visible especially at home. Working from home, school and day care center closures, limitations on eating out and purchasing prepared meals and not being able to hire paid care services such as cleaning, and child, elderly and patient care resulted in women shouldering most of the care work.

This way the pandemic revived the ties between *invisible* care work with domestic relationships and the economy. Home is a complex domain of intimacy that is co-inhabited continuously and for the long term. The increased shared information among household members leads to certain rights and liabilities. For instance, knowing which family member likes what kind of food creates a liability for the person who cooks the food or deciding who will provide the care needed by family members… As circumstances change in time, the rights and obligations that are accompanied by shared understandings and emotions can change as well.

4 With this concept Hochschild (2003) refers to the gap between care givers and receivers. In developed countries coups have difficulty caring for relatives if both spouses are working.

While social isolation measures are in effect, two points can be addressed in order to explain that domestic care work and the economy are not separate areas and they develop in the framework of intimate relationships. First is the negotiation on home-work balance related to the accessibility of paid/unpaid care work when women are employed in the paid labor market. The second point is the time negotiation related to men's involvement in care work. Doubtlessly it is possible to consider many economic relationships that encompass intimate domestic relationships and negotiations.[5] However these two are the most visible points in the framework of the changes in existing relationships in the home that occur during the pandemic.

3.1. Vanishing Connections and New Negotiations: Home-Work Balance Negotiation

The rate of women's participation in the labor force is 47% worldwide (ILO, 2020a) and 34.2% in Turkey (TURKSTAT, 2020a). These are much lower in comparison to men's participations rates, which is a result of the *'double burden'* (Moen, 1992) problem faced by women as intimate labor when trying to balance their homes and work. This double burden includes working at the workplace and at home, and it constitutes a '*second shift'*: *"You're on duty at work. You come home, and you're on duty. Then you go back to work and you're on duty." ... "her home life felt like 'a second shift'"* (Hochschild and Machung, 2012, p.82, 3). Since the second shift is based on the spatial separation between home and work it effects decisions about women's inclusion in the labor market. As a result, 41.6% of women worldwide cannot participate in the work force due to care work, while this is true of only 5.8% of all men. In Turkey this figure is 56% for women (ILO, 2018; TURKSTAT, 2020a).

This situation arises from the fact that the household consists not only of the spouses and the house they live in but also of wider intimate relationships. Relationships with third parties such as children, aging parents and people hired for care work start to significantly affect the dynamics of the household, and relationality within the household never ends (Zelizer, 2011, p.158). These complex relationships also make negotiations necessary. Pre-pandemic, established negotiations based on intimate relations have largely lost their functionality during the pandemic, and the necessity of new negotiations has emerged.

Pre-Pandemic Established Negotiations

Care relationships develop both inside and outside the household. When a woman decides to participate in the labor market despite the burden of the care work, negotiations involving *third parties* come into play. The negotiation is about how care work is shared within the

5 See Zelizer, 2005, 2011.

household or who they are delegated to[6] and it requires collaboration. As we will elaborate later, men's overwhelming inclination to stay in the breadwinner[7] position guide this collaboration towards relationships with other women who live inside/outside the household to take over the intimate labor. The high prevalence of nuclear families (65% of all families) in Turkey puts inter-spouse negotiations in the forefront. In extended families (15%) on the other hand, there may be *other women* within the household that can take over this work and people who need care within the household. Caring for the elderly, the sick, the disabled and especially the children are important areas of negotiation in households. While 42% of nuclear families have at least one child, 23.5% of all families have elderly members (TURKSTAT, 2020a, 2020b).

Family members, relatives, neighbors and friends provide caring within the household informally, spontaneously and usually gratuitously. People set rules and negotiate about what types of work will be done. Caregivers also '*acquire sentiment'* with changing scope and intensity throughout the process (Stone, 2000, p.90, Folbre, 2014, p.5). In this framework the priority given to grandmothers for delegating this work is not '*hyperbolic'* (Folbre, 2014) and it is the most intimate relation that work can be passed on to. In Turkey 7.4% of small children are cared for by their grandmothers (TURKSTAT, 2016). And there is usually no monetary compensation in this exchange, which relies on the scope and intensity of emotional relationships.

The statements of a female participant of one study, who works at a home-oriented job, supports this emotional collaboration relationship (İçli, 2011, p.237): *"Children surely need care, I look after them myself but sometimes I get pressed by work. I can send children to my mother's when work is much because her house is near. Thanks to her, she takes care of the children."*

Another option for delegates is a female '*stranger'* that offers paid care services. Although it is considered to be an apparently simple economic transaction paid care can be actually much more complex due to the effects of various social ties it is placed in (Bandelj, Morgan & Sowers, 2015, p.118). When this option is used the relationship between these two women is partially rational due to the service being ostensibly purchased. However, since this service[8] is

6 While reconciliation between these two lives depend on the division of labor between genders, the resources provided for care work in a society also play an important part. In societies where care work is supported with the social policies of the state and other institutions are functional, it is easier for women to balance home and work. These are excluded from this study.

7 The social and cultural foundations of these inclinations were beyond the scope of this study.

8 While 3% of employed women who have child care responsibilities under the age of 15 receive home child care service, 13% of them use institutional care centers. 54% of employed women who are responsible for the care of children and relatives in need of care over the age of 15 use care services (TURKSTAT, 2018b).

related to taking care of the house and/or the children and other members of the family, emotional relationships accompany the economic exchange. In this context the caregiver and receiver establish a *'fictive kin'* (Kalaycıoğlu & Rittersberger-Tılıç, 2001)', a *'sisterhood'* (Bora, 2005). The transition from being a stranger to a fictive kin, and from care work to *intimate labor* is explicit in this statement: *"I try to give them the experiences I gave to my own children"* (Nelson, 1995, p.28; Stone, 2000, p.94). This is how intimate labor, from cleaning to childcare, elderly care and patient care, enters the private borders of the household. Paid care work is usually defined as an intimate relationship[9] for both parties. This intimate relationship then requires reciprocal information. In the beginning these relationships are based on asymmetrical information. But in time, for both parties, the information they acquire about each other transforms with the addition of emotional content to the value of the care services.

Another important component of delegating the workload is day care centers, kindergartens and schools. Sending children somewhere safe while mothers are at work away from home means that the double burden is shared with teachers. Globally, the majority of people who work in these establishments are also women. In Turkey 60% of the teachers in all educational institutions are women.[10] Especially for pre-school and elementary school level students the mother-teacher relationship can be categorized as an intimate relationship.

All these intimate relationships constitute an important factor in women's ability to stay in the labor market. For the women themselves the payment made for care work is not only *the price paid for a service* but also *the price of staying in the labor market.*

These relationships with second and third parties create a balance, which protects them from losses in their lifetime earnings, or the *'motherhood penalty'* (Folbre, 2010, p.312). These relationships also involve emotions and feelings, thus creating ties between the household and the economy. This is how connected lives replace separate spheres. Care work as an economic activity and intimate relationships work when there are *"good matches* (Zelizer, 2011, p.153)*" between* them. However, the match between these relationships has been significantly disrupted with the pandemic. The weight of being in intimate labor in this process is revealed clearly in this statement: "*Before this pandemic, I already had my hands full and I often wondered what would finally make me fall off the ball. But I never thought it would be a virus, especially one I haven't even contracted" (Frederickson, 2020).*

9 There are cases where close relationships between caregiver and receiver are not always categorized in this way. (See Bora, 2005).

10 The ratio of female teachers is quite high at the pre-school (94.3 percent) and primary school (86.6 percent) levels.

The Need for New Negotiations During the Pandemic

With the spread of COVID-19 work life in some appropriate sectors has been moved to homes, dissolving the separation between home and the workplace. The home, which is supposedly representing *mere* emotionality, and the workplace, which is supposedly representing *only* rationality, became interwoven. According to a study conducted with married couples in Turkey, approximately 40% of the women who were employed before the pandemic continue to work from home, while 9% have experienced working from home but went back to the workplace after the restrictions were lightened. Meanwhile, only 23% of the men are working from home. 50% of women on the other hand stayed home for various reasons, particularly due to unemployment (UNDP, 2020)[11]. Working from or staying at home might seem like an advantage during period of health risk. Yet it is difficult to maintain a balance between home and work.

As the time intimate labor spends on care work at home increases, efficiency may be lowered at work. Examples of this balance being disturbed became a part of the daily lives of women working in any sector. For instance, the number of publications by female scholars is reported to be falling in comparison to those of male scholars. The meaning of working from home is *'less time for writing scientific articles* (Gabster, Daalen, Dhatt & Barry, 2020, p.1969, Minello, 2020, Nash & Churchill, 2020). Yet in case of unemployment or unpaid leave, this interpretation focuses on how to maintain the household economy or how to *'economize'*.

One of the important problems that accompany moving work to home in this process has been the substantial interruption of paid or unpaid relationships with intimate labor. Grandparents, who have been the most reliable dynamic of these negotiations, are now a high-risk group. The important role of grandparents in caring for their grandchildren is almost impossible due to social isolation. Same can be said for relationships with other close relatives too. Although this support mechanism can be maintained in relatively extended families, health risks limit those relationships as well.

The fact that paid care work has become inaccessible also complicates women's lives. Day care centers were shut down and caregivers stopped coming unless they are living in. Relationships with fictive kin were disturbed as well, leaving the care of children, the elderly and sick family members to the women who are either working from home, on leave or unemployed. Same goes for services such as cleaning, cooking and laundry. The epicenter of

11 The study covers the period from mid-March to the end of May. The study can be examined for other reasons for leaving and for comparisons with men.

these relationships is the fact that both the caregiver and the receiver are affected simultaneously. This means that both parties are forced to cope with a bundle of problems that have economic and emotional dimensions within their households. A study conducted by ILO shows that since the beginning of June almost half of the women who do paid care work have been considerably effected by the pandemic (2020b).

Care work at home is concentrated mostly on hygiene, cleaning and cooking. The fact that protection against the virus is possible through hygiene and cleanliness has increased the consumption of cleaning products and the principle consumer of these products are women. According to a study conducted in Turkey 78% of women state that the chore that increased their workload most during the pandemic was cleaning, while 60% state that it was cooking. Only 5% of women say they did not do the cooking and 2.2% say they did not do the cleaning (UN Women, 2020). During the pandemic nutrition has been associated with health and stronger immunity. However, regardless of this period, *"feeding the family provides an obvious yet often forgotten intersection of caring and economic activity"* (Zelizer, 2005, p.163). At a time when restaurants and cafes are closed and alternatives like ordering and eating out disappear, cooking increases the double burden for women. Planning, shopping for and preparing meals require invisible labor. Moreover, these chores involve relying on a negotiation with the spouse and the children, and add reconciliation and persuasion to the list of women's duties. Therefore, nutrition is provided through *'negotiated purchases'* where the desires of all family members are satisfied. Moreover, since family members now spend all the time they used to spend at school or work at home, nutrition has become a full time job.

The most important component of negotiation that increases the daily workload of women who work from or stay at home, and that determines their position in the labor market, is the fact that children are continuing their education from home. With school shutdowns children started to participate in distance education. It is usually the mother who has to supervise children as they adapt to this new system and also to take over some of the duties of the teachers.[12] Meanwhile teachers' workload has increased considerably due to the digitalized new system. The fact that there has not been any planning for pre-school education in this period created an additional burden. Education, which had a very limited share within the pre-pandemic care workload, became a core duty during the pandemic, almost constituting a *'triple burden*'.

12 A total of 18,108,860 students receive formal education in Turkey. 8.6% of them are pre-school level, 29.1% primary school 62.3% secondary education level (MEB, 2019, 18-21).

Due to the time and effort of intimate labor, the COVID-19 period gives many women the feeling that they are back in the past years: '*I feel like I am a 1950's housewife' and 'I suddenly find I'm living in decades gone by in terms of house and family care load, but also expected to continue to work'* (Craig, 2020).

3.2. The (not so) Changing Man: Time Negotiations

Care work incurs an economic, physical and emotional cost that was initially not taken into account or noticed. During the Pandemic, women who have undertaken large amount of care work seem to be left "*alone"*. For the working woman, intimate labor sharing with the second or third parties has almost disappeared. This means that arguments are directed entirely at home. The extent to which men are willing to participate in care work determines the direction of the negotiation: cooperation or conflict.

Since people's lives have been locked up in the house due to the pandemic, agreements between women and men need to be rearranged. In general, the increase in women's participation in the labor market has not created a *'corresponding effect'* in sharing care work. Not only practices in the workplace but also men could not adapt to this process at the desired level. It is stated that men whose wives work full-time are *'reluctant'* to change their behavior in sharing responsibilities at home (Smelser and Swedberg, 2005, s.19; Craig and Churchill, 2020; Hochschild and Machung, 2012, p.99).

Between 1997 and 2012, the time spent by women on care work decreased by only 15 minutes, while the time spent by men on it increased only 8 minutes. For this reason, it is estimated that: *"the gender gap in time spent in unpaid care work would not be closed until 2228; in other words, closing gap would take 209 years"* (ILO, 2019, p.36-37). Compared with other OECD countries in terms of time allocated to care work, the gender gap in care work is significant in Turkey. While women spend 305 minutes a day for unpaid care work, men spend only 67.6 minutes, which shows that the breadwinner-caregiver distinction continues[13].

From the examples we encounter in daily life during the pandemic, it is understood that both men and women are more willing to share care work when they work from home. As an epochal example, '*no man left who cannot bake bread at home'* has been trending on social media. However, as stated above, it is seen that during this lockdown period, the time spent by women

13 When the same comparison is made for paid work, the situation is reversed, with women 133.9 minutes and men 358.3 minutes. In the OECD average, men allocate 135.8 minutes, women 262.4 minutes for unpaid care jobs, 317.4 minutes for men and 217.7 minutes for paid jobs. ILO gives similar results for the same categories (ILO, 2018; OECD.Stat, 2020).

on care work is four times more than men's. In fact, total daily working hours at work and at home has exceeded 10 hours. For example, the time spent on unpaid care work has increased from 2.9 hours to 4.5 hours for women and from 0.3 hours to 1.1 hours for men (UNDP, 2020).

Considering this, it can even be claimed that sharing the unbearable burden of unpaid care work has become an *obligation*. On the other hand, the fact that men have been laid off /or forced to take a leave, has caused a decrease in their total working hours. Therefore, the time spent on paid job in the market has been replaced by the time allocated to care work. In this case, the reason for the change can be formulated as the *obligation* of the *man without a paid job in the market* to *perform care work at home*. For this reason, there is no *double burden* as an intimate labor for men. In fact, what emerges is a *cooperation* as a result of the reduction of men's working hours. Another crucial thing about sharing, is the issue of *'what' is shared in the household'* and *'who does what'* and *'what is to be done'*.

Even if there might be a sharing, women and men in the household tend to do different jobs. While women focus on jobs such as preparing meals, cleaning the house, shopping and engage in *'caring labor'*, men are more involved in outdoor chores and car upkeep. (Hochschild and Machung, 2012, p.101; Folbre 2001, Swedberg, 2003, p.274). "*Thus, the mixture of caring and economic activity within households takes place in a context of incessant negotiation, sometimes cooperative, other times full of conflict* (Zelizer, 2005, p. 165)*"*.

During the pandemic, it has been also observed that men are spending more time on childcare than other daily tasks. However, men and women do not have the same opinion about the time spent on care work. According to a study, while men state that during the pandemic, they are the ones who have done the 50 percent of the childcare as well as monitoring and helping distance learning, women state that this share is only around 3 percent (Miller, 2020). Indeed, women point out that men have not changed much in this new normal at home: *'I work downstairs in our living area where I supervise our kid, my husband works upstairs with no supervision duties'*. In addition, regardless of the pandemic, mothers still spend two or three times more time on childcare than fathers do. (Craig, 2020, p.5; Craig & Brown, 2017). Who will do what, and how much time will be devoted to that work remain a matter of conflict.

When evaluating how the process affects the negotiation in the household, an important fact is that the environment created by the pandemic affects the emotions. The virus creates a life-threatening risk whether people stay at home or not. Emotions such as fear and anxiety came to the fore especially in the early periods when social isolation measures were strict. In such an environment, it is very natural for individuals in the household to feel empathy for

each other. Relational work is about creating *"connections between people... create empathy for participants who represent different ways of understanding"* (Feldman and Khademian, 2007, p.306; Bandelj, 2012, p.181). Even if people who share the same house do not have the same thoughts and behave the same way, they show empathy towards each other, which leads to new agreements between them.

For this reason, it is seen that a new order can be established between the couples in the future. As can be observed in many households with child care responsibilities, couples have decided to apply *"an equal hours formula"*; *"alternating between two-hour shifts of child care and paid work* (Lewis, 2020)".

In the context of these issues, some signals are coming from households showing that negotiations are possible and carried out: *"The pandemic has really shifted things for our family. More discussions, acknowledgement of the work I was doing and a fairer division of labour'; 'My husband has done more now than in 27 years together'; 'It has actually brought us together. [The gender division of labour] is still not fair . . . but it's fairer than it was before . . .', and 'I feel like the scales have tipped – now my husband is doing as much or more supervisory care than me* (Craig, 2020, p.5)".

In addition to spouses who partially take over intimate labor from socially constructed and gendered divisions of labor within the household, the contributions of boys and girls are also important. According to a study conducted by UN Women, 72% of women state that their daughters help with household chores, and 50% state that their sons help with the housework (2020). Girls, just like their mothers, bear more burden. In terms of the direction of the negotiations, there seems to be a development towards cooperation, there is still time for equal sharing yet.

4. Discussion and Conclusion: What's Going to Happen After the Pandemic?

As a result of a pandemic that puts the whole world at risk, what we are facing is the necessity of establishing an unprecedented order. Unlike the stagnation in many other industries in the markets, continuation and even an increase in care work has clearly demonstrated how vital all types of care work are for everyday life and the economy. It has also led the care work and gender debate to be opened again. Staying or being successful in the market depends on the relationships formed by negotiation in the domestic sphere. Although the established negotiations have, to some extent enabled women to remain in the market, this 'new normal' has caused these relationships to disappear. How the process will continue in the absence of established negotiations is an important question.

First of all, two important arguments show that negotiations related to care work and close relations in the household will continue. The first argument is that scientists have stated that the COVID-19 pandemic can be prolonged and that other similar health crises may occur. Second, both due to the pandemic and independently of it, it is anticipated that 60 percent of companies in the world will continue to work from home (DW, 2020). As this uncertainty continues, how the care work will take shape, how close relationships inside and outside the household will be affected by this change, and what kind of negotiations will emerge gain importance.

In all areas of economic life, people create, maintain, symbolize and transform meaningful relationships and consequently the field of economy expands (Zelizer, 2002, p. 107, 111). This economic interaction becomes more prominent especially when people share the same household. Considering the two arguments mentioned above, there is a risk that the negative effects women face or may encounter may become permanent, as well as the danger of reproducing and reinforcing the already existing problems. Yet, this also has the potential to create opportunities. There is still time before we find out if this virus-induced 'living at home' poses a risk or is an opportunity for new negotiations. The picture that is made up of daily life examples and statistics can be seen throughout the pandemic can give us an idea of what the future holds. Yet the fact that it is not over and we are not able to completely analyze its effects allows us to present the form and balances that the negotiations will take only as foresight.

As emphasized throughout the study, domestic dynamics have changed considerably with the pandemic because many women are working from home/on leave/unemployed and not able to delegate care work to other members of the family, not able to hire paid care workers and have children in distance education. As negotiations with third parties outside the household –grandparents, care workers, teachers etc.- became largely dysfunctional, the need for new negotiations has been *turned to people inside the household*. As a result, men started to voluntarily or not, participate in care work. However, despite this tendency towards cooperation, women still shoulder the greater part of care work. In this context, discussions on women's position in the labor market gained more heat. The loss of care work relationships with third parties outside the household had emotional effects as well as economic ones. In short, the pandemic showed that there was relationality rather than separation between *'rationality and emotions', 'home and work'* or *'domestic care and the economy'*. In this context it is possible to evaluate the outcomes of the dissolution of old negotiations and the creation of new ones in terms of opportunities and risks.

First of all, staying at home during the pandemic resulted in a reinterpretation of care work and a renegotiation of *the value of intimate labor*. Therefore, the epicenter of this new negotiation inside the household is perhaps the meaning of care work. The pandemic experience showed us why it is necessary to consider certain efforts within the household, such as hygiene, nutrition and shopping and to child care, as labor. In a sense, care work has been made visible. Developing a clear understanding of the actual functioning of intimate labor improves our collective understanding of both intimacy and labor (Zelizer, 2011, p.275) In this framework the fact that housework becomes a triple burden necessitates new arrangements because unpaid care work is not *'infinitely elastic* (Elson, 1995, p.25)*'* at home. This reinterpretation was one result of men working from or spending more time at home and therefore realizing the burdens women shoulder. In this sense we can talk about the pandemic's capacity to create *empathy*. We can consider this empathy to be an opportunity offered by the pandemic in order to rearrange care work between women and men, and to develop new shared understandings. It is observed that men are more engaged in unpaid care work since the pandemic. However, the persistence of this change is questionable. Men and women agree that unpaid care work constitutes a significant challenge for women (ILO, 2019, p.37). This means that the first step of the negotiation is complete, but women have to wait considerably for the second step. However, under these particular circumstances, the possibility that the borders of the shared understanding on care work between household members might lead to the continuity of post-pandemic collaboration. The issue here is the existence of men who share care work thanks to the shared understanding.

It is true that the amount of resources in women's hands is increasing worldwide. Yet care giving commonly remains to be the domain of women. The economic choices between women's intimate relationships and care work are accompanied by decisions that actually involve various rationalities as well as emotional decisions. Folbre indicates that, despite economic limitations related to care responsibilities, women can be *unwilling* to stand for gender equality when they are unsure of the wellbeing of their children or other care receivers (2006, p.184). In a period of high health risks such as this, it is not unlikely that women will follow the *'supermom strategy'* (Hochschild and Machung, 2012, p.103) by doing all the work themselves in the domestic sphere, where they usually hold more *knowledge and skill*. Household members' trust in women for these needs accompanies this choice as well. For instance, although healthy meals or supplements that strengthen the immune system will somehow require *negotiated purchases* with family members, women's choices can prevail. This is due to trust household members have for her because of the knowledge and skills she

possesses. This in turn makes the woman the primary caregiver, and the knowledge she holds shapes the market.

The most important part of the negotiation focuses on women's position in the labor market. Although the pandemic has the potential to offer certain opportunities as we will elaborate, it is clear that it also carries the risk of losing some of the achievements women have made in the past. The return to home will require negotiating who is going to stay in the labor market: "*We can both work, because someone else is looking after our children. Instead, couples will have to decide which one of them takes the hit* (Lewis, 2020)". Especially when we evaluate the situation from the perspective of unemployed people, not being able to return to the labor market due to the economic crisis that accompanies the health crisis is a risk that women may face. Unemployment may encourage women to take over all of the care work. A similar risk is true for women who are care workers. Moreover, since both the caregiver and the receiver are affected simultaneously, *the circulation of money and labor* has changed. Now both parties stay inside the household. While the caregiver faces more economic burden, the care receiver is forced to give more labor. This interaction between women and paid labor that is necessary for women to stay in the market has been to say the least interrupted. The connected lives approach works through *good matches* between economic transactions and intimate relationships. Good matches in terms of care work, *"depend on the stock of meanings, markers, and practices actually available. … both that economic activity and intimacy do intersect all the time ...only work well when people make good matches between the two* (Zelizer 2011, p.153-4)". Being able to access paid care work for women to stay in the labor market in this period is a good match. In this context the interruption of intimate relationships has the capacity to affect the economy as a whole.

In this process care work as an economic activity has required a redefinition of the social tie between women and men within the household. For instance, couples can have a tendency for conflict about other work while they are able to sustain and nurture the social ties within the household in the context of intimate relationships when it comes to child care. However, this definition can differ from household to household. As we mentioned before, there is an improvement in the distribution of care work in some households since the pandemic while women's burden has increased in others. As often emphasized in this study, men's participation in care work constitutes the main axis of the negotiation. Considering that the newly constructed tie between spouses has the capacity to create continuity, this can be seen as an opportunity for sharing care work equally. Meanwhile in households where it is not shared, women are under risk.

The second factor that accompanies the return of the negotiation to the household is the inclusion of children in care work. While inevitably differing from household to household, the inequality between male and female children has surfaced. Girls are observed to give more effort and time for care work. Yet we can see that boys are also taking more responsibility. Just as the sustainability of new ties between spouses, it is also possible to talk about risks and opportunities in children's participation in care work. Girls' participation in care work can reconsolidate traditional division of labor and might even make it harder for them to go back to school. On the other hand, the fact that boys take more responsibility than they did before the pandemic can be seen as an opportunity that will shorten the time we need to wait for achieving equality between women and men in care work participation.

Another important aspect of men and children's participation in care work is the emergence of the *opportunity to obtain knowledge and skill in the domestic sphere*. Women's inability to let other family members take over care work, which we mentioned above, is often due to the conviction that other household members cannot *adequately perform* those tasks. Household members' trust in women for care work is reversed when men and children take these over. Therefore, this process can be viewed as a sort of *care work training* for other household members. It can be stipulated that this acquisition of knowledge and skills will lead to a long term improvement.

There is no doubt that we need to examine different relationships and ties in different households more comprehensively in order to make more certain predictions about these changes. Although women are working from home or at home because they are on leave or unemployed, the form of the negotiations will depend on factors such as whether they have children, whether the spouse is working outside the home and what age the children are. However, every decision made inside the household in terms of care work, regardless of the direction of the negotiation, is directly related with the economy. From who will be responsible for care work inside the household to what will be consumed, from resorting to paid labor to agreements with family members outside the household, the decisions made will have consequences for the economy. Whether this is visible or not will not change the result. Yet it is obvious that a wider definition of labor will increase visibility: "*not only paid market employment, but any effort that creates transferable use value, including the use value that economists commonly call human capital. Thus housework, child care, advice giving, and school attendance all count as labor to the extent that they do in fact augment the use values of their performers and/or recipients* (Zelizer, 2011, p.276)*"*. Inclusion of gender in economic sociology and accepting care work as an economic activity will, first of all, expand the

definition of economic activities. Additionally, this acceptance and awareness may lead to a more equal distribution of care work among family members. In this framework, as we tried to assert, Zelizer's alternative approach, which is based on the tie between intimate relations and the economy, gives us room for illuminating the economic aspect of care work.

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CHAPTER 3.3.

CHANGING SECURITY THREATS AND IMPACTS OF THE COVID-19 PANDEMIC IN GLOBAL POLITICS

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Abstract

This study aims to highlight the impact of the COVID -19 pandemic with a critical view. Since December 2019, the world has seen a significant threat, the like of which cannot only be studied using classical security approaches based on a state-centric view. The COVID-19 pandemic is a unique global threat that has affected all political actors worldwide, especially their security. This study seeks to examine "how the COVID-19 pandemic impacts individuals, genders, and societies that are also under risk groups of global politics, and how state leaders have reacted to this in this uncertain period". In one year, "the war against a threat" has been redefined to include health, food, and human and gendered securities while also taking massive global environmental change into consideration. This global threat will affect the world's future due to the political choices, consumer behaviour, and ways of dealing with violence that arise from it. The Covid-19 pandemic will create a shift in how different identities and existences are regarded.

Keywords: Security studies, COVID-19, human security, gender, immigration.

1. Introduction

The classical definition of international security is the state's survival of certain risks and threats in an anarchical system. With the Post-Cold War period, individual and societal security theories mention new risks and uncertainties and provide new global political opportunities. Three major masterpieces demonstrate alternative views in security studies for the 21st Century. These are Buzan's *People, State, and Fear* (2007), Bilgin's article "Individual and Societal Dimensions of Security" (2003), and an article in which leading security academics discussed the changing ontology of security studies (Aradau et al., 2006). This theoretical evolution has led to determining new security threats that affect the lives of individuals and societies. International security that is only related to state security expands over the borders of the globe. Focusing on the transforming context of security after COVID-19, the changing global politics with security challenges will provide us a framework. This article will focus on the global threats and outcomes exacerbated after the COVID-19 pandemic which has affected human security through state-centric security policies. Prominent scholars are aware that this kind of pandemic, after such a massive lock-down period, has empowered border and national security by its very nature. Public awareness concerning environmental degradation, climate change, and immigration are closely linked with food insecurity, overdrawn consumption habits, and short supply chains. Threats become not only global and regional but also individual and underline the survival of humanity in the pandemic.

In orthodox international relations, states interact in an anarchic environment in which each state may depend on its self-help to survive. Hobbes emphasized the state's necessity to control the "natural condition" of the society, and society's security has been the main reason for the existence of the state. Considering that there are no superior authorities or penal mechanisms on states, the traditional security perception is that threats are always against state sovereignty. When states increase their power, they create a threat against each other, and they do not trust their intentions; therefore, the conflict is subsistent in an anarchic system and is, thus, a security dilemma (Herz, 1950). Raising power is a national security interest, although protecting values is also essential, like avoiding war (Wolfers, 1952, pp. 483–484). Especially in structural realism, a requirement for the order and balance of power between states can create peaceful conditions. Both the English School and liberalism expanded the idea of international society; governments sacrifice their power to construct order in terms of international laws, regimes, and cooperation. According to Waltz, the interruption or abolition of the order can occur with conflict, which is an inevitable outcome of the anarchic system (1979). Neoliberal theory searches the motivation of states for cooperation. Liberal

institutionalism and internationalism explain the state's goals to limit conflicts and humanitarian crises. Alternative approaches seek how anarchical society defines the state system and why orthodox theories accept the state-centric view. Globalization and regional conflict, which have dissolved in the bipolar system that has created the shift from international to global politics, are diversified and contribute to a more normative system like human rights regime (Ruggie, 1982).

The UN is an international organization with equal and sovereign states. Regarding human rights and international law, the UN is a major organization establishing the international order in global politics. Until the 1990s, the UN Charter denied intervention in internal affairs to protect peace and security (Article 4 and Chapter 7); according to the UN, states are sovereign and equal (1945). Intervention in state sovereignty develops with the concept of the responsibility to protect (R2P). R2P draws the legal framework to limit the sovereignty of states ruled by authoritarian regimes experiencing humanitarian crises. In the circumstance of a pandemic, R2P operations can continue in conflict areas, which may increase the risk of spreading the virus. The COVID-19 pandemic affects Libya, Yemen, the global refugee crisis, and humanitarian policies.

The shift from state-centric security to human security creates a new ontology (Aradau & Huysmans, 2014). The most important reason is the collapse of the bipolar power balance system, depending on the fear of a nuclear war. The increase in the intensity of regional conflicts in the Middle East and the Balkans after the Cold War increased humanitarian vulnerabilities. Conflicts experienced in extreme conditions such as epidemics, natural disasters, and migrations went beyond inter-state relations and became global problems. Regional challenges develop as a result of globalization and concern all actors and humanity. In this scenario, the effect of globalization on communication is also significant. The humanitarian crises of the 20th Century are now brought into our homes by the mass media. The refugee crisis in Northern Iraq, the Srebrenitza massacre, and the HIV epidemic encourage communities to hear about collective suffering. Societies put pressure on the states to take collective action with the globalization of mass media. Today, the impact of the COVID-19 outbreak on public opinion affects thinking on collective security more than was the case at the time of the Spanish flu 100 years ago.

The COVID-19 pandemic is becoming a vast threat to individual, societal, and traditional state security. Under circumstances where global trade, human mobility, political contracts, and conflicts all increase the risk of infection, states have been implementing isolation conditions since March in order to curb the pandemic. The measures taken globally come

with different implications, namely, the COVID-19 pandemic demonstrates the impact of traditional national security policies, and conventional defense strategies are insufficient. Military and medical capacities become vital. Global actors holding research prominence and developed health facilities will succeed in controlling this illness. For example, the Bill Gates foundation promotes research into COVID-19 vaccines.

The COVID-19 pandemic shows the urgency of immediate action in areas like cybersecurity and health security at borders, which were also vital security gaps in the pre-pandemic era. Cyber-attacks have increased with the transition to distance education and online working conditions in Europe and the USA. Consequently, cybersecurity across the globe will also create an international cooperation area.

The control of the pandemic requires a strict lock-down. This case creates a shift in security policies: states focus on the their survival and national security. Global terrorism increased after September 11, it has proliferated conventional weapons and defense systems. Today, the areas of competition and cooperation in health are expanding. Strict surveillance policies of nation-states have increased, especially in arms control and controlling infection conditions for health security. Increased internal security audits, curfews, and the strictness of border security policies to prevent human mobility will primarily affect groups at risk, such as displaced, elderly, and disabled people in the lock-down period. Women, children, and the working-class are at risk of violence and infection. Patterns of violence during the COVID-19 pandemic have accelerated xenophobia, racism, class distinctions, sexual and gender-based violence. This study will analyse new security approaches in governing COVID-19 pandemic on a more human-centric level.

2. COVID-19 Pandemic and Human Security

The 1994 UNDP Human Security Report defines security as going beyond the traditional concept of state security (maintaining sovereignty and security at its borders) to living with the virtue of being human, free from fear and inequality. The UNDP 1994 document defines the gaps in human security threats. Human security is universal, people-centered, and interdependent on elements that facilitate early prevention (1994, p. 22). States are not the only reference object of security. Individuals need to be saved from insecurities, just like the state. The insecurities can be varied.

- Economic insecurity: This means inequality in terms of resource distribution, poverty, unemployment, and food. Famine in post-conflict conditions such as Bengal and Biafra in 1943 are examples. The fair production and trade of

raw materials and using clean, cheap, sustainable resources can create positive solutions. The world has come face to face with the danger of a serious famine during the ongoing pandemic.

- Health insecurity: Global epidemic policies involve the building capacity to prevent the spread of epidemics such as HIV / AIDS and cancer. Today, we can observe the impact of the COVID-19 pandemic on global politics, primarily through this element. Prevention has become more important than the cure during the pandemic since death rates immediately increase when controlling policies or health care are insufficient.
- Environmental security: Natural disasters can cause environmental degradation. For example, floods, landslides, hurricanes can create restrictions in access to clean water. Massive lock-down procedures diminished pollution in some regions like in China and Italy.
- Personal safety: Violence against individuals, torture, domestic violence, community security, identity, ethnic and conflict-based violence, political security, freedom of expression, restrictions on political participation. We can see the impact of the COVID-19 pandemic in all these parts. The UN and the World Health Organization define the pandemic as a humanitarian crisis and consider it a part of human security (UN, 2020; WHO, 2020). Also, gender-based violence increased with the COVID-19 pandemic, this has created personal insecurities .

The pandemic's effects are observed differently in every country worldwide, depending on the risk groups. For the last four decades, risk groups extend from the blue-collar working class to women, disabled people, genders, and immigrants who need emergency agendas (Gostin & Katz, 2016).

Globalization is the phenomenon of contemporary politics. Economic and financial capital growth in favor of technology-producing countries is evident, though The pandemic also harms developed countries. It reveals the impact of consumer culture and the global climate crisis. In Turkey, Iran, India, and Indonesia, the disease's trend continued to April and May with high rates. The severe health conditions in these countries demonstrated the linkage between health care and social state relations. After the Iran case, Turkey reacted rapidly to COVID-19 with strict precautions. With its fast service providers, Turkey have exported medical products to European countries.

With the COVID-19 pandemic, the security threats for states shifts from traditional defense policies. Health security turned into a central pillar of human security understanding. To an extent, the government's military, political, and economic power adapt to global health policies. Policies like isolation, widespread testing, diagnosis, intensive care capacities are vital. These policies control the pandemic. The combination of influence and capacity defines power in global politics, as the control of the COVID-19 pandemic has remarkably transformed the definition of power based on national security. We can predict that globalization will continue in the dimension of regionalization. Despite the COVID-19 Pandemic, world leaders in particular still stress the conflict's importance. "*Fight against COVID-19*," or war rhetoric has appeared in many leaders' discourse, for instance in Donald Trump's and the European Union COVID-19 crisis team's speeches. In the fight against the pandemic, it is clear that the crisis should go through scientific sharing and cooperation rather than a war.

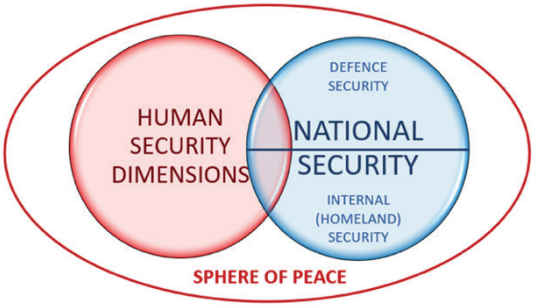


Figure 1: 21st Nigerian Economic Summit, presentation on sustainable solutions for peace and human security by Dr. Tayo Aduloju (sustainable presentation solutions for peace and human security, 2016)

It is possible to understand the crisis experienced by developed countries when globalization has deepened the inequality between the North and the South in the pandemic. Health policies are a part of financial capitalism and determine the need for health equipment, ventilators, masks.

Scholars underline the following scenarios that will affect the sphere of peace. This area includes human security and national security

1. USA and China rivalry shows a global crisis between two global powers will continue. Significantly, Donald Trump's skeptical attitude to climate change and COVID-19 damaged the idea of the USA's liberal legitimate superpower role in the global system. As Milani highlights, *"If the nineties could have been analyzed as the peak of American international legitimate power, nowadays there is a clear global power repositioning in a chessboard where China plays an increasingly pivotal role in economic, institutional and normative terms"* (Milani, 2020, p. 147).

2. National Health and Food Security will be the central part of the post-pandemic national order; health became the central part of human security necessities. Still, big powers like the USA are significant suppliers but not in sufficient capacities. States are very interdependent (Milani, 2020, pp. 148–150).

3. Populist conservative regimes are increasing in North and South. The increase in the pressure against scientific institutions and health authorities is a significant threat; denial campaigns and conspiracy theories are increasing with the leader discourses.

4. Increasing awareness in non-state actors like bloggers, NGO's, and political activists that will put a high demand on constructing post-pandemic order. Advocacy organizations, especially for specific risk groups, will be necessary after the strict isolation and surveillance culture that expanded during the COVID-19 pandemic.

Bangladesh can produce with low labor costs. India, and even countries like Turkey, while exporting medical supplies, are trying to control economic security. In this process, opening borders to medical trade supplies will show Turkey's power.

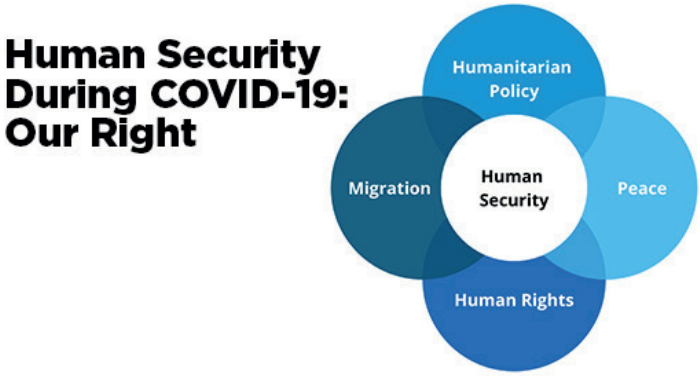


Figure 2: Coronavirus affecting global humanitarianism
https://www.mpac.org/coronavirus-response/demand-human-security-during-covid-19.php

We can predict that globalization will be determined by regionalization. Populist leaders still stress the fight against Covid-19 discourse like Donald Trump and the European Union COVID-19 crisis team. The discourse of fighting or war involves competition though it is clear that the crisis should go through scientific sharing and cooperation rather than a war.

Arundhati Roy is a global activist, and she points out the problematic part of the world leaders' "war rhetoric."

> *"The mandarins who are managing this pandemic are fond of speaking of war. They do not even use war as a metaphor. They use it literally. Nevertheless, if it were a war, then who would be better prepared than the US? If it were not masks and gloves that its frontline soldiers needed, but guns, smart bombs, bunker busters, submarines, fighter jets, and nuclear bombs, would there be a shortage?" (, 2020).*

In the following chapters, we will analyze the outcomes of this rhetoric much more clearly. This rhetoric not only increases the different types of violence but also flames militarization, xenophobia (like calling the COVID-19 virus as a Chinese virus) (Elodie Hut, Caroline Zickgraf, Francois Gemenne, Tatiana Castillo Betancourt, Pierre Ozer, 2020).

Turkey's traditional security approach is highly constructed on real-politics since Turkey is also an important collective security actor for NATO, OSCE, and other security partners. Relying on power and conduction high political priorities, the Turkish government raised its national solidarity discourse to respond to the COVID-19 pandemic. The following section will evaluate the social and individual challenges and opportunities that arose during COVID-19.

2.1 The Human Security Case in Turkey

The Turkish government implemented rapid isolation precautions after March 10, 2020, and they continued till June 1, 2020. The Republic of Turkey contributed to international meetings at the Ministry of Foreign Affairs level with WHO and the UN and announced they would cooperate with global action plans about COVID-19. As of the beginning of May, taking control of the high mortality rates demonstrates that this cooperation is tight. Turkey's interior ministry implemented a series of measures to stop face to face education, worship, gatherings, alongside travel bans in big cities. The insufficiency of the voluntary isolation till mid-April did not prevent the number of cases, and the Ministry of Internal Affairs took measures.

State-level soft power, both on a regional and global level, turned into more interventionist active foreign policy at the end of 2019 policies, especially in the Middle East region. The situation in Syria shifted to a ceasefire. If regional security priority will continue, it would mainly affect the spread of the COVID-19 pandemic in the conflict field. In terms of relations with the Middle East, the conflict in Libya makes the process even more complicated, though Turkey has influenced the regional powers, primarily supporting the Sarac government. The final ceasefire will show whether the regional tension will be closed.

The Readmission Agreement with Europe turned out to be complicated. Opening of the borders in February after the Idlib crisis harmed the constructive policies between the EU and

Turkey. Turkey is one of the Council of Europe countries who is responsible for monitoring and controlling immigration policies, this situation affects her candidacy for EU membership. At this point, the readmission conditions signed with the EU in 2016 came to a halt with the February crisis. The pandemic will create a pause to these conditions. Health equipment exchange with the EU and the EU measures helped the crises soothe a bit.

Some of the most important reasons for the pandemic's spread are the global trade process, diplomatic relations, and human mobility. Turkey closed its borders with Iran on February 23, and in mid-March with Bulgaria and Greece.

3. Gendered Insecurities

From the individual and societal perspective of security, gender identities became vulnerable, considering the security gaps that the pandemic has created. Enloe points out the importance of the "war against the pandemic" discourse with its influence on policy-making.

> *"We have learned – feminist investigators have repeatedly taught us that war-waging has fueled sexism, racism, homophobia, autocracy, secrecy, and xenophobia in myriad countries and across generations. None of those will prevent a pandemic. They will never promote trustworthy science and functional medical infrastructures. They will not protect the most vulnerable among us. They will not keep us all safe. They most certainly will not lay the groundwork for post-pandemic democracy (Enloe, 2020) ."*

The pandemic primarily affects the violence against women and children. Gender-based violence in literature comprises domestic, sexual, phycological, and economic violence; it also contains structural violence. In regions such as Libya and Yemen, conditions of conflict persist. Women among the displaced refugee groups in Syria experience the war's most severe conditions despite the ceasefire process. Africa, Latin America, and Balkan post conflict zones are all vulnerable to gender-based violence.

> *"Combatting impunity for sexual violence is critical to deterring and preventing such crimes, and to providing redress for survivors. An investigation into mass rape in the DRC has been suspended due to the pandemic, and the Special Representative of the Secretary-General on Sexual Violence in Conflict anticipates that COVID-19 will have significant repercussions for legal responses to "the Office of the Special Representative of the Secretary-General on Sexual Violence in Conflict (CRSV) including accountability, given reduced capacity to receive and process reported incidents. Relevant investigative work, pre-trial hearings, and trials are likely to be limited, and justice will be delayed. The cumulative effects could significantly restrict survivors' access to justice" (UN Women et al. 2020, p. 15).*

Women experience areas of insecurity more intensely in the following points.

- Healthcare: Major setbacks in reproductive health and gynecological diseases. Difficulty in accessing checkup service in diagnosing diseases other than coronavirus (UNFPA, 2019).
- Education: Women are taking house care works more than men due to their gender roles; this creates severe constraints in implementing distance education, working conditions and academic activities.
- Social inequality: Examples such as nursing, textiles, mostly female workers, affect women intensely during the COVID-19 pandemic in wage earners. Women will have more difficulty in applying the conditions of family isolation.
- Food Security: Women can experience limitations in access to food, clean water, and hygiene in conflict or temporary ceasefire conditions. Women with disabilities and migrants confront higher risks in isolation conditions; in some cases like Bangladesh or Niger, isolation conditions can cause domestic mobility.
- Economic inequality: Women today still do not earn equal pay for equal work, meaning paid less than men for the same working hours. Domestic care labor, which is unpaid labor, is three times more than men's household labor.
- Violence against women, domestic violence, and partner violence are increasing in isolation conditions. Monitoring domestic, economic, psychological, and sexual violence cases are vital and guaranteed by Law 6284 - LAW TO PROTECT FAMILY AND PREVENT VIOLENCE AGAINST WOMEN in Turkey.
- Abuse of Power: Power is defined in a masculine sense in global politics. War and armament are accepted as men's natural roles. Peace and reconciliation are perceived as essentialist roles of women. Nevertheless, states abuse power and mostly male decision-makers have the responsibility to conduct this power. Here, every community and individual in the risk groups, women, genders, children, immigrant disabled people, and wage-earners face inequality.

The UN and gender-based NGO's monitor and recommend policies on the following topics after the pandemic.

• Feminist policy determines the needs and priorities of vulnerable communities.

• This policy is necessary for the states to develop peaceful, inclusive, and welfare communities based on human rights in fighting the epidemic.

• Disadvantaged groups are very wide. Women, genders, children, elderly or disabled people, individuals who have chronic health conditions, rural residents, homeless people, refugees, immigrants, indigenous peoples, stateless people, people in conflict and war zones are all in these groups (Dalaman, 2020b).

The UNDP draws the outlines of integrating gender-based violence (GBV) in COVID-19 response plans.

- *"Ensure that GBV response services, including justice services, are designated as essential and remain open and accessible, including online and digital platforms.*
- *Support budgeting, too, at minimum, ensure human and financial resources are not diverted from essential GBV services and essential maternal health services. Data from Ebola-affected Sierra Leone indicates a spike in maternal mortality due to resources being diverted elsewhere. In anticipation of increased demand for essential GBV services, advocate for additional human and financial resources for essential GBV services to the extent possible.*
- *Conduct a rapid GBV and COVID-19 assessment to understand the changing context and gaps in capacity or services.*
- *Promote the inclusion of women's organizations in COVID-19 plan development, implementation, and monitoring.*
- *Support governments in promoting and protecting human rights throughout COVID-19 response. Responses may include efforts to ensure emergency COVID-related policies and legislation uphold international human rights standards and that civic spaces for civil society, including human rights defenders, are protected."* (UNDP, 2020).

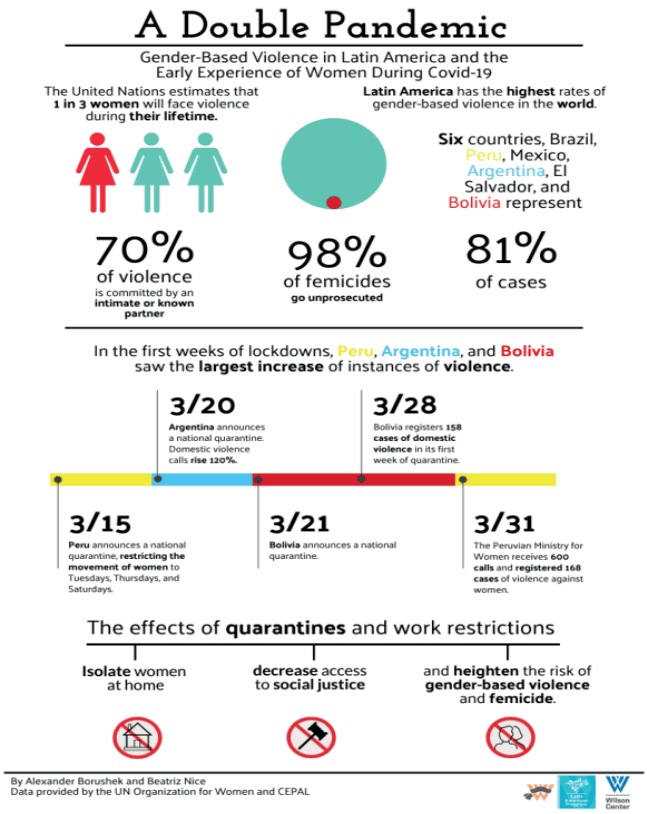


Figure 3: Gender-Based Violence Rates in Latin American region according to UN Women and Supporting NGO's (2020)

3.1. Solutions in Turkey

The Execution Package, which entered into force with the lock-down on 14 April 2020, restricted the implementation of Law No. 6284 by police forces. Sudden lock-down in the household creates a vulnerability for violence (Yılmaz, 2020). Poland, Bulgaria, and Turkey (host signatory countries) discussed the withdrawal from the Istanbul Convention in July and August. The populist conservative groups support the withdrawal remarks on the importance of protecting the family. However, the women's movement, women NGOs like KADEM (KADEM, 2020), and women from the government were against the withdrawal. Under pandemic conditions, women and children became more vulnerable to the COVID-19 situation.

Turkey remarked on the importance of cooperation in gender field normalization conditions. Non-governmental organizations, law enforcement, and local governments continue to take measures through various violence advice lines.

In the report prepared by The TED University Center for Gender Studies, the following topics stand out in combating violence (TED Üniversitesi Toplumsal Cinsiyet Çalışmaları Merkezi, 2020).

• The increase in violence against women and children is not a secondary issue in the fight against the pandemic.

• Effective implementation of Law No. 6284 is vital, and women need access to the Istanbul Convention's preventive and protective mechanisms.

• Government needs to carry out social, legal, and political regulations for the fight against violence.

4. Different risks, common outcomes: Stating the link between the environment and the COVID-19 pandemic

Alternative approaches to security, especially on the COVID-19 agenda, need a more comprehensive subtitle beyond the human and gender-based security. COVID-19 is the major environmental crisis that the globe has seen in the last Century. From the moment the virus began to harm the human body, the seas' pollution, and the disappearance of species, climate change has affected pandemic conditions and science. It is an absolute case that our control of nature is within limits; if we continue to harm the environment this fast, we will be confronted with highly dangerous micro-organisms.

In addition, there are many environmental consequences that warn us about consumption habits and our social life, consumption behaviors can make a big change in the environment.

4.1 Migration

With the COVID-19 outbreak, national and international migration conditions have changed. The refugee camps were directly closed to the outside due to pandemic conditions; many responsible institutions and NGOs have become unable to monitor humanitarian conditions and carry out the necessary inspections. Tracking illegal human trafficking has become difficult.

Immigrants of the largest transit in Turkey and Europe, due to Turkey in 2014, has signed the readmission agreement with the EU in 2016. The COVID 19 pandemic and migration issue have a link with Turkey-EU relations. Turkey continues to hold 3.5 million Syrian refugees on temporary protected status. Despite the conditions of the "readmission agreement" signed with the European Union in 2016, the mobility process experienced at the Edirne border at the beginning of February created a difficult position for the states (Yinanç, 2020).

Several points stand out mainly in the evaluation of the COVID-19 pandemic and migration.

• Insecure groups are under threat in the pandemic.

• Immigrants are in vulnerable groups; refugees have problems with health and hygiene conditions.

• One of the most important things that place refugees and migrants at high risk for diseases is their inability to access essential health services due to civil wars and conflict.

• Refugees are out of widespread testing, diagnosis, and treatment. People with chronic illnesses have limited access to medicine and live without health records.

• Barriers to refugees' access to healthcare vary from country to country. Inequality, high costs, and equipment shortages in the health sector make pandemic conditions difficult.

• In the daily living conditions of migrants and refugees, unhealthy housing, crowded families living together, infrastructure problems of the neighborhoods they live in, restrictions on access to water and hygiene materials, economic restrictions, and unemployment put these communities at greater risk (Tarlan, 2020).

Refugees and the migration crisis at the global level will continue to be an area of tension in global politics. Conflict continues despite the call of the UN Secretary-General Gutierres. Ongoing conflicts in many regions are demonstrating the human mobility will continue through illegal ways.

Especially in Europe, due to the COVID-19 outbreak, states are increasing their controls at their borders. Rescue vessels are kept in open waters, and asylum requests are temporarily suspended.

In February, mobility in Turkey's refugee crisis entered into a standstill period. Since the 2011 crisis over Syrian refugees in Turkey has about 3.5 million temporary protection status. 110,000 live at the citizenship level, nearly 100,000 live integrated with the society with a residence permit. Turkey does not accept refugees from the eastern border with commentary on the Geneva Conventions. This only provides temporary protection status for Syrian, Afghan, Iranian, and Iraqi refugees and causes problems in the integration process.

Not only external immigration but also internal immigration has close relations COVID-19 pandemic. In lots of cases like Niger, Bangladesh, and China, people displaced by poverty and environmental hazards or seasonal term jobs are creating the risk of diffusion of the

infection (Dev & Kabir, 2020; Elodie Hut, Caroline Zickgraf, Francois Gemenne, Tatiana Castillo Betancourt, Pierre Ozer, 2020; Sydney, 2020).

4.2 Environmental and Food Security

Environmental and food securities are significant issues in the COVID-19 pandemic. From the beginning of 2020, the globe experienced long-term lock-downs. Ecological degradation is connected with global epidemics since micro-organisms can be transferred from animals to human beings or even from chemical waste. Pollution and climate crises are related to food consumption and class gaps. While three-thirds of the human population represent the South-North differences, and poverty is massively increasing, the upper-middle class of growing states is consuming animal-based food. It is not only a cultural but sometimes popular trend among all countries. According to many ecologists, animal-based food consumption is also a reason for climate change because it is accelerating carbon emulsions.

Environmental degradation can influence the mobility of people, sometimes forced migration. Migration can have problematic outcomes, even if it's internal and external, by changing economic outputs. Economic security is one of the main pillars of human security, which has bounds with food and health security.

> *"The recent amplification of the climate' crisis' and 'emergency' discourses, in turn, emphasizes the role of crises as perceived 'turning points' and means to call for immediate action in response to an existential threat (in this case, climate change and the urgent imperative to limit global warming well below two °C). Confirming the momentum gained by this discourse supported by environmental activists, media outlets, and scientists alike, 2019 was dubbed 'the year of climate emergency declarations' and 'climate emergency' became the 2019 Oxford Word of the Year. However, as crises are meant to be temporary by nature, the use of this term can seem questionable concerning anthropogenic climate change as many of its impacts are irreversible, meaning that there is no "going back." Disaster scenarios - although technically more apt to fit into a definition of 'crisis' given their perceived abrupt and distressing nature - also give way to subjective (and sometimes irrational) crisis narratives. This is exemplified by the generalized use of expressions such as 'calamities,' 'catastrophes' or 'acts of God' and the diffusion of apocalyptic imagery to represent such events (see the recent Australian megafires). Such depictions contribute to framing disaster events as extraordinary and uncontrollable, and can also turn people's attention away from the constant efforts that are required to reduce risk and mitigate potential (economic and non-economic) losses through robust multi-sectoral approaches and policies that durably address populations' exposure and vulnerability to*

> *climate-related hazards. At the same time, 'slow-onset' impacts of climate change (e.g. land degradation, desertification) are less often apprehended from a crisis perspective by media outlets and the general public. However, far from constituting a distant and future risk, these events have already led to emergency-like situations, such as conflicts and famine, and have been identified as destabilizing threats on a global scale. (Hut et al. 2020)*

As we define the risk and uncertainties during the COVID-19 pandemic from global security claims, we need to identify the positive remarks. In some areas during the lock-down like China and Milan, pollution rates in the air, and sea contamination decreased (Collivignarelli et al., 2020; Kerimray et al., 2020; Lal et al., 2020).

While we are looking at environmental security, we need to analyze how food security has been an important issue during the pandemic.

4.2.1. Food Security

The definition of food security comprises the content, production, entire supply chain. "*Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for active and healthy life (World Food Summit, 1996).*"

> *Concerning food availability, it was noted that primary production might not be severely affected because production areas are often geographically distant from urban population densities. However, the pandemic may affect harvesting, transportation, and distribution. In this regard, animal feed and ingredients for food product preparation may be adversely affected, especially if they need to be imported. This is particularly true as many of the primary ingredients originate from China and India for food and non-food items, such as pharmaceuticals. Thus, the present reliance on specific markets, products, and distribution channels are probably insufficient or inadequate to respond to anticipated disruptions caused by the pandemic. In order to fight this virus, travel, conferences, conventions, and sporting vents have been canceled, and foodservice providers, as well as the entire tourism industry, have been decimated due to the required social distancing. All of these have consequences for human resources and the economy. The food industry needs to keep its staff healthy if it is to function successfully. Consumers may also resort to over-stocking and hoarding, which adversely affects the supply chain. This happens mostly due to believing rumors and false information from unauthorized sources(Shahidi, 2020, p. 2) ."*

Covid-19 is not a food-based virus, but it affects all procedures of sustaining food in the globe. A great threat of famine is expected in the world. The spread of the virus in livestock

and agriculture has turned into a critical constraint in supply chains, impacting availability and access. States face risks on ensuring security and safety while supporting the community's sovereignty on what they eat.



Figure 3: Security, Sovereignty and Safety in Food Security
https://www.bigpicnic.net/about/food-security/

"• All countries, but especially large food importers, are scrambling to build up their food reserves and have created increased pressure on global markets" (Zurayk, 2020, p. 17).

An increase in price limitations in preserving and transferring the food, changes in planting and harvesting seasons are risky security outcomes.

At national levels, the lock-down has elicited a panic buying spree by customers, temporarily emptying supermarket shelves and increasing wastage due to unconsumed fresh food.

• Concurrently, the inability of farmers to sell food that was produced for the hotel/restaurant/catering (HORECA) sector has led to wastage and produce dumping.

• Limitation on migrant workers' movement creates a loss of employment and income and has repercussions for increasing poverty rates in their countries of origin.

• Exposure of food workers, who are often forced to operate with minimum protection and without the ability to observe social distancing rules, is additional stress to their health and food security.

• Lock-downs and movement control are restricting the physical ability of people to access food and is creating food deserts in areas where transport is essential for the acquisition of food.

• Reduced wages and loss of income affecting the most vulnerable are driving an increased number of people into poverty. The poorest are already experiencing reduced economic access to food, especially fresh fruits and vegetables.

• There is a global price increase in the food basket of 20% to 50%, caused by disruptions, temporary shortages, hoarding, and profiteering along the retail value chain.

• Civil society initiatives such as food banks are lending support to state food assistance programs. Some countries are providing financial support to the poorest segment of the population"(Zurayk, 2020, p. 18)

5. Leader Discourses, Security, normalization policies after COVID-19

The first examples of the normalization policies were in China and South Korea. Simultaneously, the successful control in Singapore and Taiwan, turned eyes to Europe. The fact that today states like Spain, Turkey and Russia are pushing the conditions with the highest mortality rates, the normalization processes in Europe are taken into consideration by the economic priorities.

In Turkey, controlled normalization has started in Haziran 2020 after the acceleration of the COVID-19 pandemic was controlled in that period. Though in September second wave started.

Experts claims after 9/11, the global state of emergency has built authoritarian states worldwide and strengthened the security discourse of populist leaders. There are indications that this transformation will continue over the COVID-19 pandemic. US President Donald Trump, Brazilian President Jair Bolsonaro, British Prime Minister Boris Johnson, as populist leaders, is also criticized for their rights and freedoms and conservative policies in their countries. While isolation policies create a closure in the states' public opinion, they have the power to reach everywhere in the world with the globalizing tools of communication, internet technologies, and social media. Precisely, globalization's side effects gain a new dimension. The rise of political authoritarianism results in class and gender inequality, weak solidarity networks and individualization of the pandemic.

The rising borders of states, authoritarian, populist governments were also a reality of the pre-COVID-19 pandemic process. Nationalism produced much more racism and xenophobia, especially in regionalized and shrinking areas. Social solidarity networks must be strong under pandemic conditions, and physical distancing can't turn into a social break. The increase in distance working and education conditions and social media use will carry social

opposition to a more virtual environment. Because many opportunities for demonstrations and gatherings, including religious worship, are controlled by conditions of isolation .

In this process, curfews are seen as legitimate within the social necessity and precaution policies. Law enforcement officers have serious powers in implementing closure or isolation processes, but all these conditions, even if they are socially accepted voluntarily, will create a power inequality. The authoritarian tendencies of states can become popular under pandemic conditions because authoritarian governments make quick decisions and quickly achieve economic stability. However, in the long run, this popularity causes great damage to democratic structures. For example, China assumed that it controlled the pandemic with its intense pursuit and closed domestic policy, but the international public criticized it in the context of human rights. Europe is the new center of the pandemic. The rising national precautions in Europe's borders despite the Union show weakness for the political and economic integration. Italy and Spain, receiving help from Cuba and Russia, disrupted the general perception of the world order.

In this context, whether globalization will deepen cooperation or competition between states at the level of regionalization can only be observed if the COVID -19 pandemic continues. For example, after the pandemic's announcement, the UN Secretary-General Gutierres's call for a ceasefire could not provide a widespread control in the conflict zones, and the crisis in Libya in Yemen deepened.

5.1 Female Leaders or Nationalist: The governance of COVID-19 in a gendered perspective

A recent analysis of the COVID-19 global effect is generally focusing on how this pandemic is governing by the decision-makers, especially representatives of the states. The war, fight, conflict rhetoric generally used by populist leaders like Bolsanoro (Brazil), the President of India Ram Nath Kovind, called health workers as "Corona warriors"(DNA, 2020). All this kind of discourses define a health issue as an abstract enemy, respond with short-term policy-building, and determine the COVID-19 pandemic as unprecedented natural disaster but not an outcome of political and economic processes that influence the pandemic outbreak.

Feminist scholars have conceptualized security threats during the pandemic with a continuum of violence and suggest the importance of everyday security. States are the primary center of the security studies, they can show massive aggression to protests like "black lives matter" after a police officer murdered Goerge Floyd. The militaristic language

that Trump has used for protesters like *terrorists* and *thugs*. The police force's un-proportional intervention to protesters also defines "war on cops" (Forester & O'Brien, 2020, pp. 5–6).

Despite the militarist and populist speeches of the masculine leaders, Jacinda Arden, Tsai Ing-Wen, and Angela Merkel have preserved their calm, sensible attitudes. They stand up with solidarity and react more emphatical to their communities. Merkel's scientist identity and economic subventions during pandemics, Taiwan's leader Wen's urgent response to establish Central Outbreak Command Center (Dalaman, 2020a).

The gendered perspective of security and policy building relies on equal representation in decision making, challenging the inequalities, and preventing violence. Due to inequalities such as gender, race, and accessibility constraints, the pandemic process has largely coincided with the concept of human security.

The normalization and governance of the COVID-19 pandemic need to be governed by a new security approach

> *"1) The process has to include those who are traditionally marginalized and excluded from decision-making but who experience first-hand the fulsome effect of the lack of access to economic, social, and cultural rights protections. So, we should look at the first pillar of the Women Peace and Security Agenda[1] (WPS) and ask who participates in the planning, design, and roll-out of programs.*
>
> *2) The importance of accountability for state failure to exercise due diligence in preventing reasonably foreseeable harms, including gender-based violence and child abuse. Such harms are 'widespread and systematic,' and responses are needed that recognize their seriousness as commensurate with crimes against humanity: the state must be held responsible for their investigation, prosecution, and punishment.*
>
> *3)We need to think now about what the political economy will look like as we move out of the pandemic unless alternatives become established policy now. We are already seeing signs of continued commitment to disaster capitalism, land appropriation, environmental roll-back, and economic bail-outs, which increase the inequalities, which led us here in the first place. Relief and recovery require identification of the short, medium, and long-term needs of people as well as of society and how these are gendered.*

1 These Agenda were founded by 1325 UNSC resolution in 2000. In October 2000, the United Nations Security Council Resolution (UNSCR) 1325 was drafted and adopted by the UN Security Council. It has been followed by nine other resolutions (UNSCR 1820, 1888, 1889, 1960, 2106, 2122, 2242, 2467, and 2493), which make up the Women, Peace and Security Agenda. This Agenda has transformative potential - the potential to escape cycles of conflict, to create inclusive and more democratic peacemaking, and to turn from gender inequality to gender justice. Women's agency, voice, and capacities are critical to local dialogues, better policies, and more equitable peace deals. The UNSCR 1325 is the most translated Security Council Resolution ever. (Resouce: www.Peace.org)

4) Fourth, general international law obliges the state to make reparation for acts or omissions that constitute human rights violations attributable to it, an obligation that WPS makes applicable to survivors of conflict-affected sexual violence. This entitlement is applicable to those whose human rights have been denied by government acts and omissions before and during the pandemic and is not satisfied by ex gratia payments or welfare benefits. Reparations should be transformative; that is, they 'should provide a route through which to address the disadvantage and discrimination that contributed to and made possible the gendered harm in the first place.' They thus seek to transform gender (and other) relations and social structures so as to address inequalities and reduce the likelihood of repetition. WPS resolution 2242 recognizes the insecurity generated by 'the global nature of health pandemics' but, to reiterate the point, the reality is that the WPS agenda has not delivered on its feminist transformative promise. It has been co-opted by the militarism of the Security Council in upholding a narrow and impoverished notion of national security (Rees & Chinkin, 2020, pp. 3–4)."

Security turned into a global matter, therefore governing the COVID-19 pandemic is crucial. Determining the risks on behalf of every actor can define the solutions and clear uncertainties. Violence, displacement, climate regime are all controlled by state and non-state actors. The actors must be heard and contribute to policy-making. Women are not represented in peace agreements, health security policies, migration resolutions.

6. Conclusion

This study is an extensive literature review of changing security perceptions after the COVID-19 pandemic and suggests that alternative security policies can facilitate the governance of this pandemic. With globalization, social relations, and human connection transfer the virus, COVID-19 creates broader risks. The governments can limit lock-down and isolation precautions for continuing the economic, social, and political system. The four major security areas that the pandemic impact is human, gender, environment, food security. These security sections are all impacting economic and political security sectors; but also risking the lives of individual and social structures.

This study's limitation is not inclusive of any empirical research since, in our field still, there are limitations to conduct urgent qualitative research with sudden outcomes. This study wants to highlight how global and Turkish politics experienced pandemic with the mentioned sectors. Besides, we want to draw an outline supporting gender, race, economic equality, and new responses to this pandemic to govern this massive security threat.

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