

The World Economy and Islamic Economics in the Time of COVID-19: Few Remarks & Observations

Abdelkader Chachi

*Assistant Professor, Department of Islamic Economics and Finance,
Istanbul Sabahattin Zaim University, Istanbul, Turkey*

ABSTRACT. This paper is a critical response to the lead paper of the discussion forum entitled “The World Economy and Islamic Economics in the Time of COVID-19”, written by Benamraoui (2021). Benamraoui (2021) looked at the COVID-19 pandemic from the economic perspective. He pointed out that it has brought unprecedented challenges to the world economy, that have never been experienced before, including a sharp decline in economic output and substantial increase in the level of unemployment. He suggested that Islamic finance could provide solutions to reduce the impact of the pandemic. This paper argues that, it is true that COVID-19 has negatively affected the world economy in an unprecedented way. However, this is a global crisis like many other global crises that have battered the world before, and it will soon be over. This paper also argues that one should not overlook the other side of the coin, as many studies, articles, and blogs are coming up, showing some of the positive effects of COVID-19. This paper also argues that even though the suggested Islamic solution could help in reducing the negative impact of COVID-19, but the problem is, who is going to implement it? Even some Muslim countries may not apply it, waiting for a solution to come from the West.

KEYWORDS: COVID-19, Negative impact, Positive impact, Islamic finance.

JEL CLASSIFICATION: E52, E58, E62, Z12

KAUJIE CLASSIFICATION: B5, R81

1. Introduction

The year 2020 has witnessed tremendous and extraordinary changes in the lives of people worldwide. This is caused by the spread of the Corona virus pandemic known as COVID-19, which started in the city of Wuhan in China in December 2019, and then spread across the world in 2020. The pandemic has adversely affected huge numbers of people from all parts of the world in their personal, social, and professional lives. It touched their health, psychology, education, employment, social, cultural, and economic dealings and relationships.

Scholars across the fields of health, psychology, economics, sociology, and labor relations argue that COVID-19 is an unprecedented humanitarian crisis from which there can be no return to the 'old normal' (van Barneveld et al., 2020, p. 134). Like the year 1914 is known to be the year of the first world war, and 1945 as the year of the end of the second world war, the year 2020 could be called the year of the pandemic COVID-19.

Much ink has been shed and spilled over writing about the definition of the pandemic COVID-19, its causes, sources, repercussions, effects, impacts, measures to mitigate its effects, etc., in all major languages of the world and from different angles and perspectives (see for example, Ahmed, Ahmed, Pissarides, & Stiglitz, 2020; Bartik, Bertrand, Lin, Rothstein, & Unrath, 2020; Belouafi, 2020; Chen, Qian, & Wen, 2020; McKibbin & Fernando, 2020; Garnier, 2020; Marmarosh, Forsyth, Strauss, & Burlingame, 2020; Steger, 2020; OCDE, 2020; Sumner, Ortiz-Juarez, & Hoy, 2020; UN, 2020; WHO, 2020; etc.). As Resident (2020, para 2) put it "the human race has been terribly burdened in numerous ways: medically, emotionally, economically, technologically, and ethically".

Abdelhafid Benamraoui, wrote a lead discussion paper entitled "The world economy and Islamic economics in the time of COVID-19" for the discussion forum of the *Journal of King Abdulaziz University: Islamic Economics*. The author looked at the pandemic from the economic perspective. He pointed out the fact that COVID-19, which started in China in December 2019 and then spread globally in 2020, has brought unprecedented challenges to the world economy that have never been experienced before.

After presenting useful data and information from different sources, including governments reports and reports published by international organizations, such as the International Monetary Fund (IMF), the Organization of Economic Cooperation and Development (OECD), and the World Bank (WB), Benamraoui, critically discussed the effects caused by COVID-19 on the world economy and the financial markets.

His analysis shows that the pandemic has contributed to a sharp fall in economic output, to substantial increase in unemployment, to rise in markets' volatility, and to the deterioration in the financial status of corporations, particularly in certain industries such as airline, hospitality, tourism, and energy. He pointed out that the governments' actions taken across the globe, in response to these effects, indicate a variation in the monetary and fiscal measures introduced in terms of their scale and scope. He also highlighted some of the actions taken by the governments and corporations to withstand these effects. Finally, he concluded his paper by suggesting solutions based on Islamic economics and finance.

This paper is organized in the following sections. The second section presents and confirms not only the economic impact of the pandemic, the uncertainty it caused, the measures taken, and the policies adopted by various governments to tackle it, but also some other negative effects. Section three presents some of the positive effects of COVID-19 that have been ignored by most studies. Section four critically discusses the proposal that Islamic finance could participate in solving some of the economic issues and problems caused by the pandemic. Finally, section five gives the conclusion.

2. Pandemics: Economic Impact, Uncertainty, and Policies

According to Behravesch and Waelbroeck-Rocha (2020, para 2), the pandemic is expected to lead to a far deeper recession than the one that occurred during the global financial crisis in 2008-2009. The real-world GDP could plunge 2.8% in 2020 compared with a drop of 1.7% in 2009. Many key economies will see double-digit declines (at annualized rates) in the second quarter, with the contraction continuing into the third quarter. Furthermore, the COVID-19 breakout challenges all areas of economics, including

health, industrial organization, macroeconomics, finance, history, development, inequality, political economy, and public finance, and concerns theory as well as empirical evidence (CEPR, 2020, para 2).

As McKibbin and Fernando (2020, p. 1) argued, the evolution of the disease and its economic impact is highly uncertain, which makes it difficult for policymakers to formulate an appropriate macroeconomic policy response. At the time of writing this comment, a new wave of the pandemic COVID-19 has started, affecting more people worldwide, especially in the ageing European countries, where the majority of the people are elderly, and impacting more on their health, social, psychological, and economic terms and relationships.

In fact, the situation is getting worse every day, as mentioned in the joint statement issued by the ILO (International Labor Organization), FAO (Food and Agriculture Organization), IFAD (International Fund for Agricultural Development), and WHO (World Health Organization), entitled “Impact of COVID-19 on people’s livelihoods, their health and our food systems” dated 13th October, 2020 (WHO, 2020). According to the statement, the COVID-19 pandemic has led to a dramatic loss of human life worldwide and presents an unprecedented challenge to public health, food systems, and the world of work. The economic and social disruption caused by the pandemic is devastating: tens of millions of people are at risk of falling into extreme poverty, while the number of undernourished people, currently estimated at nearly 690 million, could increase by up to 132 million by the end of the year. Millions of enterprises face an existential threat. Nearly half of the world’s 3.3 billion global workforce are at a risk of losing their livelihoods. Informal economy workers are particularly vulnerable because the majority lack social protection and access to quality health care and have lost access to productive assets. Without the means to earn an income during lockdowns, many are unable to feed themselves and their families. For most, no income means no food, or, at best, less food and less nutritious food (WHO, 2020, paras 1-2).

However, to face this worldwide problem and alleviate the effects of the pandemic, all governments of all the countries of the world have taken a number of exceptional measures to face the situation. Among

these measures, one could mention the launch of stimulus packages and series of measures relating to fiscal and monetary policies, comprising tax breaks, payment deferrals, grants, along with credit guarantees and delays in loan repayments.

As Bulman and Koirala (2020, para 1) reported, governments have implemented an extraordinary range of new policy measures to tackle the health and economic consequences of the COVID-19 pandemic, including actions to stop the virus’s spread, to bolster health systems, to support economic activity and livelihoods, and to protect the vulnerable.

A range of policy responses have been adopted by almost all governments of the world, dealing with both the short-term as well as the long-term in the coming years. Many central banks and treasuries of different countries have taken drastic measures to curb and reduce the economic impact of the virus outbreak. Among these measures, some governments have cut interest rates as a demand management policy to face the problem, in addition to calling for and adopting multi-faceted policies that require monetary, fiscal, and health policies.

3. The Bright Side of COVID-19

Despite all what has been mentioned above, and all what has been written about the COVID-19 pandemic in the literature, one should accept that, perhaps, COVID-19 has caused more harm than good. However, one should not close one’s eyes to the good things that might have come up from the crisis. One should appreciate some of the good positive things that have been achieved, as a result of the pandemic (see for example, Garnier, 2020; OECD, 2020; Steger, 2020; van Barneveld et al., 2020).

The pandemic has created new job opportunities to perform and execute from home rather than from offices, thus, reducing the time to commute between home and offices and the need for office space and the bills of heating and air conditioning. The OECD (2020, p. 3) reported cleaner air quality, healthier water, effective waste management, and enhanced biodiversity protection, which will not only reduce the vulnerability of communities to pandemics and improve resilience, but will also have the potential to boost economic activity and reduce inequalities.

With fewer cars and busses on the streets and fewer planes in the sky, greenhouse emissions are fewer. Oil and gas prices have dropped. There are less road traffic jams, less road accidents, less pollution, less claims on insurance companies, reduced commuting time, more use of electronic platforms for teaching, learning, and meeting, and learning new skills or different technologies. Some people have been able to devote some more time for family attention and relationships, etc. (Resident, 2020; Gerada, 2020).

4. COVID-19 and The Role of Islamic Economics and Finance

At the end of his paper, Benamraoui (2021, p. 73-75) suggested that Islamic economics and finance, through its key principles and investment vehicles, including the profit and loss sharing (PLS) system, *takāful*, and *waqf*, could provide a number of solutions to improve the resilience of the economy while the pandemic is still ongoing. However, the question is, who will implement these suggestions?

The 2008-2009 global financial crisis showed that Islamic finance is, in some way, more resilient, to some extent, to financial crises than its counterpart, the interest-based finance (see for example, Hasan & Dridi, 2010; Bourkhis & Nabi, 2013; Ibrahim & Mirakhor, 2014; Khan & Muhammad, 2015). Despite this fact, yet not many, or in fact, no country has adopted the Islamic financial system as an alternative to the interest-based system. Even Muslim countries have not done so, except some and to a very minute extent. Some of them are even reluctant to use the word Islamic to describe the Sharī'ah-compliant transactions.

Van Barneveld et al., (2020) warned against the non-implementation of plausible and workable solutions by reminding that:

In the wake of the 2008-2009 Great Recession, the United Nations organised a global conference on the World Financial and Economic Crisis and its Impact on Development. ... Unfortunately, many of its recommendations, although agreed by member States, were not implemented. Had those measures

been in place, the world would have been in a better position to deal with a global financial and economic crisis. (p. 151)

Some countries, especially western countries, may use one or two of the suggested solutions presented by Benamraoui, such as the *waqf*-based solution, but surely not under the same title as *waqf*. They may use close synonyms, such as endowment based or charity based solutions. It is not expected that they use the other solutions suggested by Benamraoui.

5. Conclusion

COVID-19 has, without doubt, negatively affected many economic sectors, which forced many, if not all governments of the world to take extraordinary measures to counteract its various impacts. This is because the pandemic hit the world suddenly. The world was not ready for it. However, recently, after adapting with its aftermath, the people have learnt how to live with it.

In fact, the pandemic has also shown some positive effects on some other sectors, with some innovations that were not thought of before the pandemic. It has, for example, reduced air and water pollution, car accidents and fatalities, saving perhaps more lives than those who died from the pandemic. The pandemic has created new job opportunities to execute from home rather than from offices, thus, reducing the time to commute between home and offices and the need for office space and the bills of heating and air conditioning. As OECD (2020, p. 3) reported, cleaner air quality, healthier water, effective waste management, and enhanced biodiversity protection will not only reduce the vulnerability of communities to pandemics and improve resilience, but will have the potential to boost economic activity and reduce inequalities.

It is true that Islamic finance, if implemented, offers plausible and workable solutions to the effects of the pandemic as suggested by Benamraoui (2021). It may also reduce the impact of some other financial, economic, and social crises, if rightly implemented. However, who will implement them?

References

- Ahmed, F., Ahmed, N., Pissarides, C., & Stiglitz, J.** (2020). Why inequality could spread COVID-19. *The Lancet Public Health*, 5(5), 240.
- Bartik, A.W., Bertrand, M., Lin, F., Rothstein, J., & Unrath, M.** (2020, April 8). Labor market impacts of COVID-19 on hourly workers in small- and medium-sized businesses: Four facts from Homebase data. Retrieved from: <https://bit.ly/38DevTP>
- Behraves, N., & Waelbroeck-Rocha, E.** (2020, March 30). COVID-19 recession to be deeper than that of 2008-2009. Retrieved from: <https://bit.ly/3mYIGuS>
- Belouafi, A.M.** (2020). *Al-tada'iyat al-iqtisadiyah wal ijtimai'iyah li-firus corona al-mustajid (COVID-19): Wijhat nadhar Islamiyah* (Socio-economic implications of the novel corona virus (COVID-19): An Islamic perspective). *Journal of King Abdulaziz University: Islamic Economics*, 33(3), 45-78.
- Benamraoui, A.** (2021). The world economy and Islamic economics in the time of COVID-19. *Journal of King Abdulaziz University: Islamic Economics*, 34(1), 67-78.
- Bourkhis, K., & Nabi, M.S.** (2013). Islamic and conventional banks' soundness during the 2007-2008 financial crisis. *Review of Financial Economics*, 22(2), 68-77.
- Bulman, T., & Koirala, S.** (2020, May 15). The OECD COVID-19 policy tracker: What are governments doing to deal with the COVID-19 pandemic? *Organization of Economic Cooperation and Development [OECD]*. Retrieved from: <https://bit.ly/2KG8Vbk>
- Centre for Economic Policy Research [CEPR].** (2020) About COVID Economics. Retrieved from: <https://bit.ly/2KEiWFO>
- Chen, H., Qian, W., & Wen, Q.** (2020). *The impact of the COVID-19 pandemic on consumption: Learning from high frequency transaction data* (Working Paper). Retrieved from: <https://bit.ly/3hkVLFQ>
- Garnier, A.C.** (2020, June 9). COVID-19: Les conséquences environnementales du confinement (COVID-19: The environmental consequences of confinement). Retrieved from: <https://bit.ly/34Lo2a3>
- Gerada, C.** (2020, May 26). Some good must come out of COVID-19. *The BMJ*. Retrieved from: <https://bit.ly/2KFzHk4>
- Hasan, M., & Dridi, J.** (2010). *The effects of the global crisis on Islamic and conventional banks: A comparative study* (IMF Working Paper No. WP/10/201). Retrieved from: <https://bit.ly/3hmUXqN>
- Ibrahim, M.H., & Mirakhor, A.** (2014). Islamic finance: An overview. *Pacific-Basin Finance Journal*, 28, 2-6.
- Khan, A., & Muhammad, J.** (2015). Financial resilience: A comparative study of Islamic and conventional banking. *Global Journal of Business and Social Science Review*, 4(1), 370-379.
- Marmarosh, C.L., Forsyth, D.R., Strauss, B., & Burlingame, G.M.** (2020). The psychology of the COVID-19 pandemic: A group-level perspective. *Group Dynamics: Theory, Research, and Practice*, 24(3), 122-138.
- McKibbin, W., & Fernando, R.** (2020). *The global macroeconomic impacts of COVID-19: Seven scenarios* (Brookings Institution Research Paper). Retrieved from: <https://brook.gs/3aL5JFR>
- Organization de Cooperation et de Development Economique [OCDE].** (2020). *Effets positifs potentiels du télétravail sur la productivité à l'ère post-COVID-19: Quelles politiques publiques peuvent aider à leur concrétisation?* (Potential positive effects of teleworking on productivity in the post-COVID-19 era: What public policies can help to achieve them?). Paris, France: Author. Retrieved from: <https://bit.ly/34NNNXB>
- Organization of Economic Cooperation and Development [OECD].** (2020). Making the green recovery work for jobs, income and growth. Retrieved from: <https://bit.ly/2WPUROX>
- Resident, R.** (2020, April 20). Finding the good in COVID-19: Is there a silver lining? *Medpage today*. Retrieved from: <https://bit.ly/3hnFdnf>
- Steger, M.** (2020, August 10). COVID-19: Quels sont les effets positifs sur la vie au travail? (COVID-19: What are the positive effects on work life?). Retrieved from: <https://bit.ly/3nVpkqN>
- Sumner, A., Ortiz-Juarez, E., & Hoy, C.** (2020). *Precaarity and the pandemic: COVID-19 and poverty incidence, intensity, and severity in developing countries* (UNU-WIDER Working Paper No. 2020-77). Retrieved from: <https://bit.ly/37RsXbu>
- United Nations [UN].** (2020). *Shared responsibility, global solidarity: Responding to the socio-economic impacts of COVID-19*. Retrieved from: <https://bit.ly/3pqkxhp>
- van Barneveld, K., Quinlan, M., Kriesler, P., Junor, A., Baum, F., Chowdhury, A. ... Rainnie, A.** (2020). The COVID-19 pandemic: Lessons on building more equal and sustainable societies. *The Economic and Labour Relations Review*, 31(2) 133-157.
- World Health Organization [WHO].** (2020, October 13). Impact of Covid-19 on people's livelihoods, their health and our food systems: Joint statement by ILO, FAO, IFAD and WHO. Retrieved from: <https://bit.ly/37TE2Jj>

Abdelkader Chachi, is currently Assistant Professor of Islamic Economics and Finance at Istanbul Sabahattin Zaim University, Turkey. He holds a PhD in Money and Banking from the University of Wales, UK. Before joining Istanbul Sabahattin Zaim University, Turkey, he worked as a Senior Researcher and Trainer at the Islamic Research and Training Institute, a member of the Islamic Development Bank in Jeddah. Before that, he worked as a Researcher at the Islamic Economics Institute (previously, the Islamic Economics Research Centre), and as a Faculty Member at King Abdulaziz University in Jeddah, Saudi Arabia. He has several publications in both Arabic and English languages. His research interests include: Islamic economics, Islamic banking, Islamic finance, social finance, microfinance, and small and medium enterprises. **E-mail:** abdelkader.chachi@izu.edu.tr

الاقتصاد العالمي والاقتصاد الإسلامي في زمن كورونا المستجد (كوفيد-١٩): بعض الملاحظات والتعليقات

عبدالقادر شاشي

أستاذ مساعد بقسم الاقتصاد والتمويل الإسلامي،

جامعة إسطنبول صباح الدين زعيم، إسطنبول، تركيا

المستخلص. تُقدم هذه الورقة رؤية نقدية لورقة منتدى النقاش بعنوان "الاقتصاد العالمي والاقتصاد الإسلامي في زمن كورونا المستجد (كوفيد-١٩)" التي كتبها ابن عمراوي (٢٠٢١م). تتناول ابن عمراوي (٢٠٢١م) جائحة كورونا (كوفيد-١٩) من منظور اقتصادي، التي أشار فيها إلى أنها تسببت في تحديات غير مسبوقة للاقتصاد العالمي لم يسبق لها مثيل، كالانخفاض الحاد في النشاط الاقتصادي، والزيادة الكبيرة في مستوى البطالة. علاوة على إضافته بأن التمويل الإسلامي يُمكن أن يُقدِّم حلولاً مناسبة تُحد من آثار ومُخلفات الجائحة. تتفق هذه الورقة مع مسألة الأثر الاقتصادي السلبي للجائحة على الاقتصاد العالمي بطريقة غير مسبوقة، إلا أنها -أي الورقة- ترى أن الجائحة تُمثل أزمة عالمية كغيرها من العديد من الأزمات العالمية الأخرى التي عصفت بالعالم من قبل، لكنها انتهت كما ستنتهي هذه الأزمة كذلك. ثم ذكرت الورقة أيضاً أنه لا ينبغي للمرء أن يتغاضى عن الوجه الآخر من العملة، حيث تظهر العديد من الدراسات الجانب "المشرق" للجائحة؛ أي ما يمكن وصفه "بالمُنح التي تختفي وراء المِحْن". وتناقش الورقة أيضاً أنه وعلى الرغم من أن الحل الإسلامي المقترح يمكن أن يساعد في الحد من آثار الجائحة، إلا أن المشكلة تكمن فيمن سينفذه؟ حيث إن بعض الدول الإسلامية قد لا تطبقه، وتنتظر أن يأتي الحل من الغرب.

الكلمات المفتاحية: كوفيد-١٩، الأثر السلبي، الأثر الإيجابي، التمويل الإسلامي.

تصنيف JEL : E52, E62, E58, Z12

تصنيف KAUIE : B5, R81