COVID is an Opportunity to Reduce Global and Local Geographic Inequality

Abstract

The persistence of the COVID-19 pandemic has led to a surge in interest among employers to permanently keep employees working at home. This has in turn led to growing interest among employees to move away from major cities toward their rural hometowns in search of larger homes and cheaper prices. This trend of workers moving away from major cities presents an unprecedented opportunity for economically underdeveloped areas to shrink the "geographic inequality" that has opened up in the past decades as cities took the lead in an increasingly knowledge-centered economy. By leveraging the skills and resources returning immigrants gained in urban economic centers, what used to be the economic periphery of the world has a chance to dramatically speed up catch-up growth.

But underdeveloped rural areas will not simply develop when they receive new arrivals from developed cities. To truly extract value from the new arrivals, their local governments must put in place policies that incentivize them to move and stay as well as turn their presence into concrete financial resources in the form of tax revenues. Only by creating a mutually reinforcing mechanism in which local governments invest in physical and social infrastructure to encourage migrant inflows, and then ask the immigrants to contribute to further investments in the form of taxes, can there be a sustainable push for both the demographic and economic centers of gravity to shift from urban to rural regions.

COVID, Meet Remote Work

The emergence of the new coronavirus disease in Wuhan, China in late 2019 led to rapid changes in the way many white-collar workers work. A December 2020 survey study conducted by the Pew Research Center shows that in the US, the proportion of respondents who say that worked from home was 71%, up from 20% before the pandemic (Parker, Horowitz, and Minkin 2020). The same study shows that more than half of the respondents prefer to continue working from home even after the pandemic ends. As employers take into account the preference of their workers, a permanent shift in the geographic location of the workplace is likely in the post-COVID world.

The tendency to remote work is not limited to the US. In the European Union, more than half of employees in some member states have already been sent to work at home permanently by May 2020, with some industries, such as IT and finance, reporting more than 80% work-from-home rates (Berzina 2021). Some 91% of Singaporean workers preferred to continue working from home, with many amongst them worried about and opposing their employers asking them to head back to the office (Today Online 2020). Firms and industries more capable of investing and utilizing digital systems and technologies are more likely to keep employees teleworking and embrace permanent work from home structures.

As more workers spend more of their time at home, there is an increasing demand for more spacious and less costly homes, even if that means farther distance away from the office. With city-dwellers seeking out new housing in more remote regions, housing prices in rural areas are increasing more than in cities. Prices in rural Germany and southwest England, for instance, respectively jumped by more than 8% and 6% in 2020, far outpacing their urban counterparts (Peachey 2020; DW 2020). Rural areas, long used to young people moving away to larger cities for education and higher salaries, now see an inflow of young city-dwellers.

An Opportunity for Rural Areas to Level the Economic Playing Field

The shift of young city workers to permanent rural residence presents a rare opportunity for regions that have long faced a "geographical inequality" in economic development. The comparison between capital cities and rural hinterlands can be particularly illustrative of this inequality. Official data in 2018 show that while London has a GDP per capita of more than GBP 54,000 and growing by 1.1% a year, southwest England only has a GDP per capita of GBP 28,000, with only 0.1% annual growth (Fenton 2019). OECD data shows that in 2018, the greater Tokyo region in Japan recorded a per capita GDP of more than USD 41,000, whereas Kyushu and Okinawa averaged less than USD 30,000 (OECD 2019). If workers from London and Tokyo move to more rural areas of England and Japan, while keeping their higher-paying jobs in the megacities, they can jolt the rural economies through increased consumption and income tax base.

The issue of inequality is not just one within countries, but also between them, a fact that is now being address through return immigration. A year of the COVID pandemic saw more than 2.1 million international migrants return to their countries of origin from more developed states, most notably from Western to Eastern Europe (Georgiev 2020). Many of these return immigrants brought home skills, knowledge, connections, and savings that they can channel into establishing and investing in new businesses that directly strengthen the economic competitiveness of countries previously suffered by persistent brain drain. As the return migrants establish new businesses, more qualified workers can be lured home knowing that opportunities similar to ones that they have taken advantage of in other countries increasingly exist in their home countries.

The result may be a virtuous cycle of economic development that had previously only benefited the largest, most economically productive cities across the world. Lyu et al (2019), for instance, used the exodus of people from rural Jiangsu province to major cities across China to illustrate that a

fundamental lack of economic opportunities, caused by decreased economic returns on agricultural activities and the resulting increases in under- and unemployment suffered by villagers, as the primary factors pushing them to leave for cities. While rural areas benefit from remittances sent back by those who moved to major cities, the remittances are, by definition, a fraction of the economic contributions that the same individuals made to the cities they reside in. Had they instead lived directly in their rural hometowns, they have the opportunities to create more economic value than the remittances they send back.

As People Move Back to Economically Underdeveloped Hometowns, Geographic Inequality Shrinks

Indeed, the room for catch-up growth is immense if the economic periphery of individual countries and the world can leverage the sudden influx of return migrants who had been laboring away in advanced economies for years and decades. This is particularly apparent within the European Union (EU), where free movement of capital and labor has contributed to catch-up growth in Eastern Europe. Before the COVID-19 pandemic broke out in late 2019, the likes of Estonia, Lithuania, Poland, and Hungry registered the highest growth rate in the EU (Eurostat 2021). As Georgiev (2020), COVID-19 has stopped brain drain to Western Europe, one of the major drags for economic growth in Eastern European states. The shift in the distribution of people itself can be a driver for more economic catchup growth in developing regions and countries.

As the population shifts, the patterns of consumption, and thus, trade, may also shift accordingly, providing further fuel for catchup growth in the economic periphery. For instance, the study of large and medium cities in China by Fan et al (2020) show that population inflows, social infrastructure investment, and urban vitality in terms of public service are mutually reinforcing, creating a virtuous cycle that stimulates economic growth by stabilizing provision of factors needed for economic and population growth, including high-quality transport networks, education, and governance. Thus, as

the population flows back from advanced to developing economies, the geographical gap in social and physical infrastructure shrinks, thereby removing a further obstacle for the economic periphery to play economic catch-up.

The mutually reinforcing relationship between population movement and economic growth in urban China is reflective of a larger history of economic convergence in East Asia, a model that can be replicated across other parts of the world to reduce geographic inequality. What multiple scholars term the "flying geese model" saw manufacturing investments from Japan to South Korea, Hong Kong, Taiwan, and then China and Vietnam creating a region-wide manufacturing cluster in East Asia, allowing other states and regions to catch up and even surpass Japan in levels of economic development (Kojima 2000, Schroppel and Nakajima 2003, Ginzburg and Simonazzi 2005). Qi, Yang, and Jin (2013) noted that a similar diffusion of economic convergence is happening in China itself, as both government policy and private sector incentives have led to less-developed central and western China to catch up with the eastern seaboard regions. In both the flying geese model and within China itself, the geographical spread of economic development was accompanied by the movement of educated people to more economically underdeveloped regions to spread both knowledge and investments needed for catchup growth to take place.

Government Policies to Encourage the Shrinking of Geographic Inequality

Of course, the correlation between getting more people and economic growth is not a definite one. Studies on economic and demographic data from Pakistan and parts of sub-Saharan Africa, for instance, show that a high population growth rate is not followed by economic growth, due to an absence of institutions that can capture the economic value of a larger population (Asongu 2013, Afzal 2009). Just as Fan et al (2020) suggested in their study of urban China, population growth would not have triggered further urban and economic development had improvements in social infrastructure not follow the

population growth. Hence, for governments and the society at large in underdeveloped regions to capture the economic values of returning migrants and reduce geographic inequality, it is essential to put in place policies that encourage both public and private investments in infrastructure to respond to the arrival of extra residents.

Additional investments in both social and physical infrastructure in rural areas have the added benefit of strengthening the financial position of governments in these areas, leading to a virtuous cycle of more tax revenue followed by more investments. Fan et al (2020) show that as better schools and roads leading to major cities are established in rural areas adjacent to urban ones, local real estate prices go up and people with higher incomes move in. These trends enable rural governments to collect more income, sales, and real estate tax revenues, providing them with the means to further invest in infrastructure to attract more residents.

During the COVID era, the additional financial resources at the disposal of the rural governments should be leveraged creatively to attract remote workers. Beyond the basics of furnishing cheap, reliable high-speed internet and electricity connections, money should also be used to provide concrete incentives that offset the advantages of urban living. Rural governments can invest more in refurbishing existing residences to satisfy the demand for stylish houses among the urban cosmopolitans and invest more in local art and community venues for urban-dwellers worried about losing access to cultural and networking events that are more available in densely populated places. Such investments can take place as direct subsidiaries to artists, architects, and event organizers for them to take their craft directly to rural regions.

A Comprehensive Policy beyond the Local Government

While studies confirm the need to invest in both social and physical infrastructure in rural areas to fully capture the value of increasing population inflows, they are less clear about how to go about funding

these infrastructural investments. Unsurprisingly, major cities with large populations and economies will remain bigger sources of incomes, sales, real estate, and corporate tax revenues, even if COVID drives more urban-dwellers to leave permanently. Rural governments, even after putting together new tax streams, simply will not have the kind of resources city governments have to incentivize people to stay. In other words, it may be insufficient for rural governments to work by themselves to formulate policies for local development when city governments have more funds to do the same.

To prevent an unnecessary fight between urban and rural policymakers for residents, there needs to be more coordination within national governments and international bodies, to ensure that resources spent by policymakers in economically underdeveloped regions are not offset by those used in economically developed ones. The COVID-19 Global Access (COVAX) program promises to use international resources to level the playing field on vaccine distribution across the world. A global effort to ensure a more even distribution of fiscal stimulus to prop up economies less able to help themselves should also be put in place both at the international and national level. Such coordination requires national governments and international bodies to support, through policymaking and extra financial resources, rural governments to attract more residents and fetch more value from them.

National and international support for underdeveloped geographies will inadvertently face backlash from economically developed regions. Major cities remain the engine of global and national economic growth, with more people, tax revenues, and demand for public spending. To invest more in rural areas, before they surpass cities in economic importance, is to invite opposition from the majority of city-dwellers who are keen to remain in cities even as COVID persists. To placate city-dwellers who are determined to maintain the primacy of urban-centered economic development, national governments will be wise to state that shrinking geographic inequality is not a threat to cities, but a further opportunity for them to grow as nodes connecting more prosperous rural hinterlands.

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