

The Weekly Take

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Move Along: Futurist Parag Khanna on Business, Technology, Migration and Climate

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Spencer Levy

I'm Spencer Levy, and this is The Weekly Take. Regular listeners to our podcast know there are some recurring topics and themes that come up all the time. There's the full array of important issues in commercial real estate, of course. And I also love to sneak in references to food and music and other fun stuff. On a more serious note though, the wisdom of cutting edge thought leaders is something that informs all our conversations. On this episode, I get the chance to sit down with one of those powerfully influential thinkers to hear some of his truly thought provoking perspectives.

Parag Khanna

I set out to answer this one question: if the world population is going to peak at around nine billion people over the next 20 to 30 years, where — literally where — will we be?

Spencer Levy

That's none other than Dr. Parag Khanna, the founder of FutureMap, a data driven strategic advisory firm based in Singapore and a bestselling author who writes about technology, business and culture in an interconnected world. Parag has been named one of Esquire's 75 Most Influential People of the 21st century and has been featured in Wired Magazine's Smart List. His latest book, "Move: The Forces Uprooting Us" and his other works are a true source of wisdom and inspiration. In a conversation we recorded at the CBRE Institute's recent gathering in Arizona, Parag and I got into some of his biggest and most thought-provoking ideas on demographics, the state of democracy, data and the concept of digital nomads. We talked climate and economics, technology markets and more. It's a very in-depth back and forth in which we also delved into a question that will make anyone think have we reached, as Parag suggests in his latest book, a point of quote "Peak Humanity". Coming up my face-to-face with bestselling author Parag Khanna. That's right now on The Weekly Take.

Spencer Levy

Welcome to The Weekly Take and this week, we are recording from Scottsdale, Arizona, and we are privileged to have with us Dr. Parag Khanna, literally one of the world's great futurists. Parag, thanks for joining.

Parag Khanna

Thank you, Spencer. Great to be with you.

Spencer Levy

Awesome. Well, one of the books you just wrote, which I read in anticipation of today's interview was, "Move: The Forces Uprooting Us." Why don't you give us the central thesis of the book?

Parag Khanna

Sure, I take two megatrends, which is demographic decline, meaning the plateau in the world population and climate change, among other factors, but those predominantly. And I try to use those as a lens to forecast the human geography of the next 10, 20, 30 years. In other words, I set out to answer this one question: if the world population is going to peak at around nine billion people over the next 20 to 30 years, where — literally where — will we be? How did we get there? And who are the people? You know, the young people of today are the mature adults of tomorrow. Who are they? What are their values, preferences? What are they doing and why?

Spencer Levy

Well, there's so much to unpack there, Parag. But one of the things I find fascinating is that the forecast of future human population is declining. We may be at peak people, or we may soon be at peak people. Tell us about that.

Parag Khanna

Right. So Peak Humanity is not a term that people are familiar with. It's one of the terms or phrases that I coined in the book. But it's not my idea that the world is rapidly reaching its demographic plateau. There have been a number of books that have alerted me to this trend. And even they, to some degree, have understated the case because they were written before COVID. And I wrote this book before COVID, but I had the benefit of using COVID to update some of the forecasts. Now, if you're familiar with the term baby bust, you heard it during COVID, but you also heard it 10 years ago after the financial crisis. So what's really happening to the world population is that we've had two baby busts back to back in a really short period of time. That's bad, Spencer. It's a really, really bad in terms of the number of our species. Now it's good if you think that more people causes more problems and climate change and so forth. Yes. But you also want to, to some degree, manage or control, engineer, if you will, the correct balance across generations. And we're losing that right now because we have a lot of old people, a lot of young people, but very few young people coming after today's young people. So it is something that I grapple with. It is not just our number. At the end of the day, whether it's eight billion and a half billion, nine billion, 10 billion, it's not a whatever thing, but it's about the distribution. Again, that's why I write about human geography, because the fact is that sure, Nigeria and India feel overpopulated, but Russia and Canada and Germany don't feel overpopulated. So the distribution and the generational balance is what matters for economic, health and fiscal health. And that is what I'm trying to correct through advocating for a more rational human geography than what we have today.

Spencer Levy

Well, I think one of the mathematical elements that I presume you're thinking about is something like Social Security. I think most people who pay into Social Security believe they write their check every month, and I'm entitled to Social Security, and maybe they are. But you're not paying for your Social Security. It's the next generation. So how do we pay for social benefits in a world where there is this disproportionate number of older folks versus younger folks?

Parag Khanna

You know, you raise taxes, you bring down the cost of those benefits of delivering the benefits, you shrink what the benefits are themselves. All of this financial engineering is going on. fiscal engineering is going on right now in every developed country in the world. Obviously, pension benefits the retirement age, you know, this is the stuff of daily news in the Senate or electoral cycles in terms of the reforms that are underway. But, you know, fundamentally, it's probably an intergenerational issue of what is the new social contract because you don't necessarily have an agreement on what the priorities of spending should be right now versus in the future. Older people tend to not want to spend as much on infrastructure versus health care because they benefit from the health care and they don't use as much infrastructure. Younger people want to see more investment in infrastructure and aren't as concerned about health care because they're not drawing upon that. So it's not just a static picture of what constitutes the welfare state and those benefits and it's the same thing generation after generation after generation. And it's just a matter of finding enough money. There's a debate about what we're even spending on who is doing the spending and what for and what is the best agent of delivery of that so-called welfare and whether we should even have it in the volume that we used to have it and what age you should have it. So everything is open to debate right now when it comes to the welfare state. And why, well, because it's our money and we're fighting about trillions and trillions of dollars. And therefore the definition of what is the public good is no longer sacred.

Spencer Levy

What's interesting about the way you answer that question, I heard in your answer the words why and what several times. I did not hear the word where even though that's the central tenet of your book. Because one of the great things in your book, you showed that over the last 50, 60 years, there's been a disproportionate number of people in America moving out of the Northeast and Midwest. Disproportionate number of people moving into the South and Southwest. But those are the places that are most stressed by the climate right now. So if you had to spend your infrastructure dollars, do you spend it in high growing cities in Texas, Florida and Arizona where we're sitting today? Or do you look further out and put them into some Midwestern cities in Michigan or in Illinois?

Parag Khanna

And the answer, unfortunately, is it's driven by the market right now. Whether it is the residential market, the real estate property market, or you might even call it the political marketplace for lobbying and funding of various projects that can be social infrastructure in nature. So we don't have a rational top-down master planned kind of system in America. Where you say, and this is of course, what I advocate for, but we don't have right now what I'm advocating for. What I'm advocating for is that you think about climate change and climate models and what it's doing to the cost of building and maintaining assets in certain geographies. And you do a cost benefit analysis about spending. You know, if you take the example that I've looked at recently, the cost of rehabilitating Louisiana's electricity grid after each successive hurricane keeps going up. But its ability to withstand the next hurricane goes down while the population of Louisiana is in secular decline. So should Louisiana or coastal Louisiana receive the same amount of federal funding as other places where the population may be growing that are more climate resilient? Probably not. Is that fair based upon our present political structure and administrative geography? No, not at all. But guess what? Climate change doesn't care about international borders. It certainly doesn't care about state lines in America. So as a taxpayer, what I'm interested in is seeing what are the climate resilient zones that are the lowest cost to build and that can sustain, sustainably sustain larger populations? And those are the places that I would like to see, receive more investment and have more people moving to those places. And they

will cost less in the future to maintain our infrastructure and provide services to those people because they're in places where you have, for example, abundant solar power. Right? Rainfall and other kinds of public goods, if you will. So again, that's not the way America is run right now. But I'll tell you what, I'm an optimist. We're actually getting closer to this. Spencer, I know you follow this. What is FEMA, HUD, Army Corps of Engineers. what are they all saying? They're saying eminent domain in these coastal areas? Right? Very rigorous flood scoring revision of the flood score for all counties of America. And all of these incentives, nudges, right as we like to call it in behavioral economics nudges, to get people away from climate stressed areas. And so I think that we're doing the right thing. Other countries do this already, of course, and we're going to get on that bandwagon. Again because not only is it the right thing to do for your own survival, but it's fiscally the smart thing to do as well.

Spencer Levy

What I agree with you about and I think most people would agree with us is the apolitical distribution of infrastructure capital. It should not be, quote unquote pork barrel spending, but should not go where there's great political power. I think that's pretty non-controversial. But there were some elements of your book and what you just said that I find pretty controversial. And that is the losing of democracy in exchange for a higher authority that would make these decisions. And so how do you respond to that?

Parag Khanna

There are no intergovernmental organizations in the climate arena that can supersede national sovereignty on matters of fiscal spending or immigration. So that's not a point that I made. So you and I are in total agreement on that one. Domestically, I don't think my argument is anti-democratic either, because if you look at governors — governors are absolutely front and center in saying we need a lot more cross state cooperation on our watersheds, transboundary water management. On our infrastructure and roads. On our kind of regional climate resilience, spending all of this stuff is by democratically elected governors and mayors. Ever since my very first book, I've celebrated the importance of governors who realize how arbitrary their boundaries are between their states and work together in democratic fashion. So this is quite pro-democracy. I am for individuals making the choice as to where they live. But what I'm saying is that the private market should actually use this data around livable and non livable geographies. To help provide that low cost housing and climate resilient areas where you have renewable energy and therefore you're not paying as much in your utility bill for a failing grid. What's undemocratic about giving people the choice to go and live in more resilient geographies?

Spencer Levy

What's interesting is I think there's probably more agreement between you and me than perhaps I thought it to begin with. But I'm now turning to Page 64 of the book, which is a chart which shows the quote the best form of government. And I wrote a little note next to it that said

Parag Khanna

Terrifying.

Spencer Levy

Terrifying. And the reason why I said terrifying is because your chart in your book says the people that like democracy are the interwar generation; Baby Boomers, Gen Xers, my generation. I presume our generation, our generation and then millennials. It falls off the

planet, and I'm sure it's worse after that. Isn't that something we should be concerned about?

Parag Khanna

Note to listeners, Spencer has scrawled the word terrifying in the margin out here. So now let's be clear, this is not my voice. This is a very authoritative survey of which there is many done by Ipsos Pew and others. And those surveys that have been done conducted by the way, across North America and Europe, covering 20 countries. Surveys of Gen X, millennials and even Gen Z know you can expand it to them. Show a declining degree of satisfaction with the conduct of their government. And even in principle, somewhat greater dissatisfaction with democracy itself because they identify their own societies as underperforming democracies. That is a reflection of those surveys. Whether it's my opinion is utterly irrelevant, right? But I can very much sympathize with young people who have grown up in a world where the defining events that they can remember are, first of all, not the fall of the Berlin Wall. Because only you and I are old enough to remember that. Because millennials are not so, the defining events of their lives are the invasion or the 911 terrorist attack. So a direct attack on their homeland after hundreds of years of sanctity other than, of course, the attack on Pearl Harbor. The financial crisis, political polarization, the election of Donald Trump, culture wars. And so forth. So if you have grown up as a millennial or Gen Z and this is the America. You know, we have to pause for a minute and sympathize that they don't remember Cold War triumphalism the way you and I do. What is important is that it's incumbent on us to reflect on why our democracy is performed so badly that young people who are supposed to have grown up in a world of hope don't feel it. That's the real problem here. Not that they're upset.

Spencer Levy

Well, the hopelessness and their hopelessness is probably too strong a word. I don't think young people are hopeless. I think they may have less hope than perhaps we do. In fact, by

Parag Khanna

The way, I think, you know, they're incredibly resilient

Spencer Levy

And that's that's a hopeful thing. But there are several central tenants to your book on why mobility is the future. And and your last quote in today's presentation was that mobility is destiny.

Parag Khanna

Indeed.

Spencer Levy

And that some of these tenets to that mobility isn't just being forced to move due to climate change. It's also a different conception of what a good life looks like. Getting married, having kids is part of it. That's the personal side. But the professional side is, and I'm again quoting from your book, A career for a Gen Z is nothing more than an assemblage of gigs and fees. And then I wrote something in the margin, which we can't say on air, but nevertheless to say I disagreed with what you were saying. So do you really believe that this is what the future of work looks like?

Parag Khanna

I'm not saying that aspirationally, because that is obviously a fairly despondent view. But if you look at the percentage of the youth labor force that is forced that is forced to survive, if you will, on this assemblage of gigs. That's just a factual matter. It's not a desirable state of affairs that they are in, but it is the state of affairs that they are in. And that even applies in countries where you have more regulated labor markets like in Europe and so forth. So I find that lamentable. But the solution to it is not to argue whether it's good or bad, because you and I probably agree it's not good, and I'm certainly not describing it as good. But what are we doing about it? Where are the full time jobs with benefits and worker protections being created? And if you are a society that's going to attract young people, you need to be one of those places. That's the beginning and end of it. So again, I don't support that. I don't think that's a good reality. But it is reality. It's not reality for everyone by the way. This kind of data changes annually. You can suddenly have a surge in new job creation right. On the back of economic growth, fiscal stimulus, whatever the case may be. And those can be full time jobs. And we've actually seen it in the US during just in the wake of COVID. But you also can't treat that like it's a permanent trend because that might also be a blip. And we might go back to, you know, gig economy model. So you can't say that all the new jobs are full time jobs and it's all hunky dory. And I can't say no, it's all B.S. You got me work that sucks and is exploitative. It's both at the same time and it's a balance between the two. But I think we can agree that the good society is the one where young people can have a career path, meaning a stable job commensurate to their skills that provides them an adequate quality of life and that that's something we should be trying to do more for.

Spencer Levy

You're here today in Scottsdale, Arizona, and you just stood in front of an audience of the largest corporate occupiers in the world to a person in that room. Every one of them is either saying they're going to be a carbon neutral pledge by 2030 2040, sometime after they've all embraced ESG. So let's assume for a moment that they're right, that they actually pull that off. How does that change your outlook for the future. If we actually can come up with some kind of climate remediation plan?

Parag Khanna

So there's a difference between climate risk mitigation and climate adaptation. What you're describing is mitigation, and that's very important. 90 plus percent of all investment public and private in related to climate change action today is in mitigation. Which is to say green buildings. Right. Decarbonization of our assets, greening our supply chains and infrastructure and so forth. That will eventually reduce emissions. To the extent that reducing building emissions in America or globally is an important tool of reducing emissions. And it is and of course, the built environment. The real estate sector are a significant double digit contributor to greenhouse gas emissions. So I applaud all of them and I hope they do it yesterday. But I have some bad news. That's not going to make a huge dent. It's not going to fully offset the emissions being generated by the other 80 percent of the economic sectors that continue to produce greenhouse gas output. So it could be agriculture, oil and gas, energy, mining, transportation, you name it, right? Secondly, we have been pretty far off the mark in underestimating the extent of climate change. Though you and I have the benefit of having seen this morning's news. The IPCC report just came out the latest one. It's a pretty, pretty dire picture around the RCP, the representative concentration pathway scenario and likely temperature rise globally. We're headed towards a two degree rise. And you can green all the buildings you want, and I get I don't want to be on this, but that's going to be listened to by your clients that tell them not to do it. Of course, they should do it. But can I just say something as someone trained in geography, right? A green building in a coastal area is still in trouble from sea level rise

and tropical storms. So what I focus on because I believe that mitigation is happening. In all the right ways, but I believe and this is the gist of my argument, we're not putting nearly enough resources into adaptation. Again, you can have lots of green buildings in Miami. You might still need to move a little bit back from the coastline. Right, that's an adaptation. We put five percent of our total public and private resources on combating climate change into adaptation like seawalls, relocation, new settlements, all of these kinds of things, right? Five percent. Do you think it could be a little bit more? I think it could be a little bit higher, given that we are on a pretty irreversible pathway here. So adaptation shouldn't be controversial because it's about our survival. Therefore, it's pretty important. And I advocate just a greater balance, basically between mitigation and adaptation. So in other words, the best climate resilience is new geography right, shifting towards resilient, stable geographies. Of which we have plenty. I say, look, here is the central challenge of human geography. We have one hundred and fifty million square kilometers of terrain on the planet. About 100 million square kilometers of that is perfectly habitable and will probably continue to be. Despite climate change scenarios. And we have only eight going on nine billion people max. Right? So you decide, where do you put your people? Where do you build your towns? Where do you build your offices. And optimize that geography in light of obstacles like obviously political boundaries and financial pressures and so forth? And that's the challenge we need to answer and the answer is as much adaptation as mitigation, if not more adaptation. I think it's about balance

Spencer Levy

Going back to the demographic argument we were making earlier about younger folks wanting to be more mobile. Not being as interested in democracy because it's left them down. You used the concept today that I had not heard before. It was called digital nomads. And nomad visas that are being utilized now by —

Parag Khanna

We're not Gen X. That's the problem. So we're not cool enough,

Spencer Levy

You know, Gen X, we don't ever get any love on these shows. In fact, I don't even get that much love in your book and you're a Gen-Xer.

Parag Khanna

I'm glad you at least created this show for us to commiserate.

Spencer Levy

Thank God this is now the "Gen X we're still cool" hour. So let's go into this concept of nomad visas, digital nomads. What does it mean and what does it mean for the movement of people?

Parag Khanna

OK, so there is like a tactical and a strategic kind of insight here. The tactical is wow, look at these countries that have said, Hey, we want to attract young people. There's lots of remote work going on. Why not? You know, we have nothing to lose by experimenting a little bit and deregulating our visa applications and getting some young people in and staying in our hotels and eating in our coffee shops and bringing some money, right? That's the kind of superficial tactical view of it. The strategic view links back to the really big picture demographic realities. And this is one area where COVID has definitely been a wake up call. Because suddenly what happened when travel stopped and tourism stopped and all of the business conferences and mice industry dried up instantly, we realized what

happens when people are gone, you really miss them. And as services economies, you can't survive without people. You need that footfall, right? You need that traffic from the airport, in the train station to the hotels and the coffee shops and the restaurants. You need those people. Our economies are 60 to 70 to 80 percent services economies. So what really happened is something much deeper than just, oh yeah, I'll make my visa processing a little bit faster. What happened is countries woke up and realized they need people. And it's a depopulating world in which they realized they need more people. So when I think about the nomad visa in this broader context, I think of it as nothing less than a symbol of the global war for young talent. It's a world with four plus five or five billion young people and all of the well built, you know, habitable, wealthy or OECD countries of the world are running low on people. And this is why this nomad visa thing has really taken off. Not just an opportunistic COVID thing, but a long term salvo in the war for talent.

Spencer Levy

And you said there were something like zero of them a few years ago, and there were 75 to give me an example.

Parag Khanna

At most people have had heard of Estonia, right? The Digital Republic, you know? You know, get your they were even offering what they call digital citizenship in this kind of thing. Where a USB key gives you access to banking services and other kinds of things again. Now, seventy five countries overnight. Exactly when we were talking about xenophobia, protectionism, walls, borders, cultural suspicion over COVID and, you know, transmission of COVID in this kind of thing. While we were conservatively posturing about a world that was completely breaking down. Half the countries in the world said, please, please come to my country. And that didn't get reported. So as an analyst, I'm offended by the oversight. Because it actually points to the much more positive deep trend around countries realizing that they have to attract young people. And that being a really positive story because then it becomes a race to the top right. Because that whole dissatisfaction of democracy doing plays in here. Because no one forces you to move to those countries, you go there because they're offering the best package. Good governance, affordable housing, education opportunities, subsidies for your tech start up. A liberal lifestyle and culture. Guess what? Those satisfaction numbers are going to turn around in those places that are redefining their models to cater to those young people.

Spencer Levy

Well, we talk about how young people and the attraction of talented young people is the key to any country's future success. But I've read and I'm trying to recall who the author was. I might have been Thomas Friedman, who was talking about having too many young people and not enough opportunity actually creates risk rather than opportunity. And so what you're suggesting is those same young people that may be a risk factor in countries that don't have the institutions to give them the opportunities to proceed. If they moved to someplace else, they then, with the institutional stability, are then able to grow that new destination place/ Is that what you're saying?

Parag Khanna

Well, that's the classic brain drain argument and phenomenon that obviously has been happening for at least a century, you know, with very positive effects in terms of the redistribution of wealth creation by diasporas to their home countries. But both can be true at the same time, countries that are losing people can still be unstable. Look at Egypt, right? I mean, you've got it's the most populous Arab country. People are moving away, but still, it's not totally politically stable. Look at Mexico, right? You know, you've had even

though net inward outward migration is relatively stable between the U.S. and Mexico. It's still not exactly a thriving first world democracy, right? But on balance, young people are going to leave countries that are underperforming. And look for opportunity and jobs in places that are doing better. Again, that's the story of the post-World War II labor migrations of Latinos and Asians to America Turks and other post-colonial populations to Europe. It's been happening. It's been working well. But when a country is losing its young people and is not producing the next generation, obviously it's going to be in an economic tailspin. Right? Canada is maybe the best real world example of this. Canada is not only attracting ever more migrants, but it's creating full time employment for them. And keeping unemployment low and diversifying its economy all at the same time.

Spencer Levy

Well, there was an interesting argument, and I'm looking for it now in your book about GDP itself. And I think the quote was either you believe it or you don't, right? And I'm having more arguments or discussions now with economists and others that some people don't believe GDP is the correct metric anymore. And in your book, you actually used a few different metrics about the sustainability of a country. I'd like you to talk about those metrics and why those might be a better metric of the future of a country versus GDP growth. And then I'll say one other thing. I had a debate the other day with another economist said, you know, we should give up on GDP and just look at standard of living. And Japan may have no GDP growth, but boy, do they have a high standard of living. So I'd love to hear about the new metrics and what you think about GDP versus standard of living.

Parag Khanna

I would fall into that progressive camp, if you will, that says that purchasing power parity quality of life indices, these kinds of things are certainly far more revealing. And that you should be looking at the median obviously individual over the mean for sure. And when you sort of re rank the world, according to those metrics, the places with the highest GDP may not always be the places with the best, highest standard of living. So America would come down quite a few notches if you would do this. And I'm sympathetic to that because I've lived in places that may not be as wealthy per capita as the U.S. Indeed, most European countries aren't other than like the Nordics. But the quality of life is by most people's again, day to day experience, probably better, right? In terms of their overall, their life expectancy is higher. Average educational attainment is now higher. Public safety, law and order these things are considered better. All of these kinds of, you know, again, prosaic, mundane variables that we should be looking at when we're thinking about the median person. Now, if you want to recreate an entire sort of table, there's many, many approaches. There's entire international efforts among economists and officials to create a new index. But I want to bring in the environmental factor. I think this is key. Then there's the Sustainable Development Index, which does take all of this into account. And what's interesting about its findings is that the countries that have the lowest per capita emissions footprint but still have a high standard of living meaning quality of life, nutritional level, low child mortality, high life expectancy, good education, right? Those places are places like Panama and Costa Rica, Sri Lanka and Albania and Thailand. You know, places that are not Norway, right? But literally on a per capita sense, you know, in Albania, they're obviously not pumping all that oil that Norway is right. And they're not buying those fancy T-shirts made in China. You can live a good life in Albania and not be destroying the planet. So they're these countries that are kind of like upper middle income or middle income countries with a low environmental footprint. Now I'm not advocating for one or the other, right, but I am saying that if you believe that reckless global consumerist materialism on an aggregate basis is just part of quote unquote destroying, you know, the world, then

you do need to seek some inspiration in countries that have a more, you know, sort of humble, modest, less consumerist approach to their economies and still have a decent quality of life.

Spencer Levy

Well, I have been having a debate recently with one of my colleagues over in Asia, Henry Chen, and runs our Asian research desk. He's terrific and we've been debating the the plus one future. The China Plus one and how a lot of people put it in terms of where goods are manufactured. And he has been advocating for the VIP countries for Vietnam, Indonesia and the Philippines. I, of course, as the American argue for the Big Mac, Mexico, America and Canada. And I remember in one of your prior books, you talked specifically about how the world was going to become more regional and less global. Do you still believe that? And if you had to put your money in the VIP or the Big Mac, where's it going? Oh, it's

Parag Khanna

Oh it's both you and Henry. Is it enriching? You're both 100 percent spot on. So in the future is Asia, and I wrote about what I call the fourth wave of Asian economies, and it's specifically South and Southeast Asia, which is a contiguous set of very young states from Pakistan through India, Bangladesh, including Indonesia, Vietnam, Philippines. So again is VIP countries are already prospering on the back of very significant gains in foreign direct investment. Not just that which has been diverted from China in the sense of China plus one, but in and of themselves as large and growing consumer market. So I am obviously very bullish on this fourth wave set of countries. I live in one of them, you know, I voluntarily moved there and I've been experiencing that story. So the VIP countries that are the fourth wave Asian economies are huge winners from A) Trump's trade tariffs. B) their own demographics. C) anti-China pressure, desire to drive, diversify supply chains. They're lower wages and so forth. So all of that is happening, which contributes to the regionalism within Asia. Because trade within Asia is greater, significantly greater than trade between Asians and non-Asians. In other words, Asia is becoming self-sufficient. North America is already by far the most arTurkic region of the world, and that's also something to be celebrated. And that goes back quite a ways. I mean, to, you know, NAFTA, obviously, and post NAFTA now into the USMCA agreement, which is the Big Mac, if you will. And the USMCA trade agreement, it really builds on what was happening due to the shale energy revolution and Trump's tariffs and desire for industrial policy in near shoring accelerated by COVID. You take all of these things sequentially, and what you get is a situation where on the eve of COVID, the U.S. was trading more with Canada and more with Mexico each than it was with China. Reversing a decade or so of displacement by China of those others. I call that scenario continental drift. You better believe that COVID is accelerating continental drift because we've seen what happens is supply chains get disrupted on that transoceanic scale. And how much better off we'd be much more resilient would be if we had more domestic production. And that is why at the height of COVID, in the midst of all of this again, protectionism, xenophobia, self-centeredness, just trying to survive. Three three of the most significant measures ever undertaken at regional fiscal and trade consolidation took place. Right. I mean, the European rescue package, right, a \$750 billion combined eurozone budget. And again industrial policy backing greater regional integration. The Regional Comprehensive Economic Partnership in Asia, the largest trade agreement in the history of the world. Anyone region. And, of course, the USMCA. US, Mexico, Canada, right. Signed last spring. Are you kidding me? Right? People are not noticing this. Three biggest regional steps integration steps pretty much ever were taken during COVID. Is that an accident? That's no accident. That's no accident. It's because of COVID. Right? It's because of this

recognition that we need to be more self-sufficient. We need to turn to our neighbors in times of crisis when you can't depend on global supply chains. So the world is irrevocably moving in a regional direction. And that's a wonderful thing. It doesn't mean the end of globalization at all. We're still competing to again outsource to Southeast Asia, right to access and sell in those markets/ Your own clients are expanding their footprint there because they're those countries are part of the Regional Comprehensive Economic Partnership. So I foresee regionalism and globalism coexisting.

Spencer Levy

The word that keeps coming back during this conversation about maybe the primary motivation or a primary motivation behind regionalism is resilience. And resilience and I will give credit to one of our clients. As I would say, every client that was in that room has an ESG guide. One of my clients, a terrific company called Invesco, has changed their guidance as ESG Plus R, They actually have the resilience in there? And then several of our clients are enormous firms that also own insurance companies as part of their real estate umbrella, and they're now using these insurance companies underwrite what is the real economic risk of these areas. So let me ask you a general question, because this is a real estate audience. Should you start to put in a resilience discount into buildings that may be an environmentally questionable areas?

Parag Khanna

Absolutely, absolutely. And I think that that should be quantified relentlessly and likely depreciation of those assets can be modeled very well. And therefore you can constantly run this exercise of, you know, ranking the likely performance under different climate scenarios or demographic scenarios. And starting to divest from what are going to be underperforming assets. And again, if everyone does that, the data will nudge us in the right directions of geographical adaptation. I'm not a passive observer in this, you know, I'm actively involved in this with all of our clients. And I think that's exactly what we should be doing. And again, we are in a free market. We celebrate that right. People are going to go and invest and live and build your offices, your homes, wherever you want, more or less. But when it comes, time to answer the question who's left holding the bag right? And if you are the occupier, the builder or whatever the case may be. You want to be careful about where you locate your long term investment. So yes, I think that you should have, you know, a resilience officer, if you will. And that resilience officer needs to be armed with models around the geographical resilience capability of each county in America. And, you know, put a price on that.

Spencer Levy

Well, putting aside people's beach houses on the water. This is not residential real estate. This is commercial and I'm just going to be straight up with you. The hottest markets for real estate investment in the country right now are places that include Austin, Texas, Dallas, Florida, Miami, Phoenix, where we're sitting right now. And yes, even though California has faced terrible risks due to forest fires and other types of fires, Northern California Los Angeles, which is also at risk to fires, two of the hottest real estate markets in America. What do you say to that?

Parag Khanna

Miami and Phoenix. Yeah, absolutely. I don't...I say follow the data because if people are moving to those places and if there's growth in the office and retail sectors as a result of the influx of people there, take advantage of it. If you see the cap ratio, you know, accelerating coming down, obviously you want to take advantage of it. So I'm not saying sell every place now that will eventually be climate stressed. I'm saying model the time

horizon at which it is no longer profitable to be in that place. That's again, precisely what we do for our clients that that's what you should do. So take advantage of it now. But resilience is also about knowing when to exit, right. Pursuing the profit motive. There's nothing wrong with that and saying, Hey, if Miami is going to be hard for the next four or five, whatever years, I'm not going to miss out on that opportunity. But don't be the last one holding the bag, right? Constantly check your models and see. And also what I'm also interested in terms of geographical asset allocation or what places are underpriced right now. The whole world is not moving to Phoenix and Miami. Right? If you if that were true, then you'd be missing out on the story of, you know, Boise and Nashville and also obviously Austin and Portland and Atlanta and Raleigh and on and on and on and it goes right. I get asked all the time, I put it this way, I get us all the time. What's the next tier one? Right? And the problem with a lot of our existing real estate economic models is that they're totally endogenous. You know what you know about the cities that you track and you can make an accurate prediction if nothing were happening outside of that data. If climate weren't a factor, if demographics weren't a factor, if there weren't significant changes in, you know, cost of living and other sorts of things. But that's not the way the real world works. So you need to make your models more complex. So that you can start to get a better and preemptive, you know, get an early read on what places are genuinely coming up in a structural way, not just as a flash in the pan. But because they are actually resilient.

Spencer Levy

I just got back from the midwest, my son is looking at several wonderful colleges up there for school. And it's hard to get around the midwest because they've got these bodies of water. The Great Lakes that are it takes a long time to drive around them. The same thing that was sitting in hiding in plain sight. Is that their greatest strength in the future?

Parag Khanna

I'm pretty bullish on the Great Lakes. You probably saw that, you know, very, very early in the book where I did a scenario planning exercise in the early 2010s. Globally, looking at places that kind of passed through the filters of climate risk, political risk, economic risk and opportunity, and kind of scouring the regions of the world. And we realized, oh my goodness, the Great Lakes looks pretty damn good in the year 2050. The irony being, of course, that Michigan, to take that example, is still depopulated. It's still losing people right now,. Even though with 100 percent money back guarantee, it's going to be a great place to be on a relative basis as climate change accelerates. Again people make their own decisions. They vote with their own feet. Investment follows those people and on. But at some point, people may realize that instead of leaving the northeast and the northern part of the United States for the South and the West. Maybe they'll be nudged right to go back by climate change or other factors. The smart money would say, hmm, where do I buy now because it's going to appreciate later. And again, I am seeing that happen there are so many players in the market in the U.S., and I'm saying that we have better data science than ever before in a holistic way that I certainly put to my disposal to try and map out what places I think are going to be the winners across the political, economic, commercial, demographic and environmental parameters.

Spencer Levy

Well, I think that's a great way to end the show. We have the data available now and we should use it. So on behalf of The Weekly Take, it was my pleasure to have Dr. Parag Khanna back here in Phoenix with us again at CBRE for one of our events. What a terrific job today Parag. And Parag is the leader of the Future Mapping Consulting Agency in Singapore. He's just written his seventh book called "Move, The Forces Uprooting Us."

What a terrific guest. Thank you very much, Parag.

Parag Khanna

Thank you so much. It was a pleasure

Spencer Levy If you enjoyed hearing from Parag on the show. Check out our website to learn more that's CBRE.com/TheWeeklyTake. You can share the show. And also listen for Parag's ideas informing our conversations with other influential thought leaders. Look for The Weekly Take archives on the podcast platform of your choice. As always, we encourage you to send us feedback. And don't forget to subscribe, rate and review us wherever you listen. Thanks again for joining us. We'll be back next week. For now, I'm Spencer Levy. Be smart. Be safe. Be well.