



## Forces of Migration

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Powerful global forces could cause billions of people to relocate over the next few decades, a transition that may have significant investment implications. Join William Blair's Hugo Scott-Gall and Parag Khanna, founder and managing partner of strategic advisory FutureMap and author of *Move: The Forces Uprooting Us*, for a discussion of what's driving migration, including demographics, climate change, and politics.

Comments are edited excerpts from our podcast, which you can listen to in full below.

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**Very simplistically, you write about how the world is going to change through the lens of migration. What big trends do you see?**

**Parag:** If you look at the underlying drivers of human mobility over time, several drivers are not only present and agitating today, but also very much in overdrive and are fueling each other.

The first driver is demographic imbalance. For example, we have a mismatch between aging societies in need of young workers and caregivers in the north, and an abundance of that human capital in the south. And that mismatch is more acute than ever, particularly because we've had increases in longevity.

A second driver is political upheaval. Just think of all the refugees from international conflicts and economic crises. The Syrian crisis of 2015 alone pushed 2 million people into Europe.

Technological disruptions are also drivers of movement. When factories close due to labor automation, people are forced to relocate to places where there are jobs. And digitalization and remote work now allow people to go and live wherever they want.

Finally, there's climate change. Climate determines where most people live. Most of the human population, for example, lives in latitudes between 20 and 30 degrees north. For every one degree of temperature rise, it's predicted that a billion people will be displaced from that climate niche.

The bottom line is, the number of people moving has grown from single-digit millions to hundreds of millions, and in this century it will surely be more than 1 billion people. And we need to prepare for it.

**Historically, migration has been driven by people simply seeking to improve their lot in life, so I want to drill down a bit more on climate-necessitated change. Could you talk about what you think that is going to mean?**

**Parag:** I take regional patches of the world that fall either within the borders of one country (say, Siberia and Eastern Russia) or across borders (say, parts of Europe)—and look at their environmental suitability for human habitation.

There's no question that the Southern Hemisphere is going to be more a victim than a victor when it comes to climate change. But so is much of the Northern Hemisphere. Europe has a higher latitude than the United States; it's more at Canadian latitudes, and when you look at climate niche maps and forecasts, Canada is the promised land, whereas large parts of the United States become unlivable.

So when we make our macroeconomic forecasts, we look at the fundamental climatological and economic geography of places, which is different from the static approach we've used when making our predictions through a non-climate-change lens.

**You've been to more than 150 countries. Let's go around the world. I was fascinated by your book's discussion of the rise of the "stans"—Kazakhstan, Uzbekistan, Turkmenistan, and others. You're saying their time is coming, because climate change will push people up, whether from India or other parts of central Asia. Maybe start there.**

**Parag:** This region of the world tugs at my heartstrings the most. I've spent so much time there over the past 20 to 25 years, witnessing the demographic changes and economic modernization, including the so-called new silk roads.

Kazakhstan's population is growing. It's very young, high fertility, with large number of foreigners coming in. It's a real magnet. I've actually advised private equity funds that are building international schools and hospital chains, all manner of real assets across the country, given that overall positive trajectory.

And Kazakhstan has really risen up the rankings in global food production. With geography and underpopulation, you could imagine it having far larger populations.

And I keep seeing more Indians in Kazakhstan. I decided to frame this in my book by talking about what I call the reverse Mughal Empire. The Mughal Empire was founded 500 years ago in Central Asia, and Babur and his descendants came southward and conquered the Delhi sultanate. But now you have South Asians moving north over the Himalayas. They're guest workers, but finding their feet and assimilating. I characterize it as a country of 25 million that could grow to 200 million a couple of decades from now, the way things are going with climate change.

### **What does that say about India?**

**Parag:** The biggest red zone in the world in terms of decreasing suitability for human life includes India, Pakistan, and Bangladesh—the three major South Asian countries, with a combined population greater than 1.8 billion. So it becomes perfectly logical from a climate standpoint to forecast that the largest diasporas in the world will be the South Asian diasporas—far larger than the Chinese diaspora of today.

### **Let's talk about China and environmental degradation, particularly water.**

**Parag:** China is still the world's most populous country, but barely. At this point the distinction between China's and India's populations is negligible, and India will rapidly surpass China. India has higher fertility given its lower median age, but the bigger issue is the dependency ratio—the one, two, four as it's known (one child supporting two parents and four grandparents).

China still has the world's largest diaspora; many Chinese still migrate outward as laborers or scientists or students. It's issue is how to incentivize younger Chinese to work in the services economy. Because while people from poorer countries move to China, it's not a welcoming place for Westerners anymore, given its politics.

You're right to raise environmental issues like water. But China is working on it, far more intensively than India is, which actually has similar water stress issues. It's working on massive river diversion projects and other schemes to provide a clean, stable water supply for northeastern regions of China.

### **Water, particularly China versus India, is a likely flashpoint. Are there other parts of the world where the need for fresh water will outstrip supply, potentially leading to instability?**

**Parag:** There are quite a few flash points, unfortunately. You have a lot of volatility in relations between Egypt, Sudan, and Ethiopia, for example, over the Great Renaissance Dam Project. And it's a slow-moving catastrophe in some cases, like in Laos.

That said, water wars don't create more water, which is why you haven't seen an officially declared international conflict over a river basin or something like that. It doesn't lead to a productive outcome for anyone.

This has actually been an area of fairly innovative diplomacy. For example, certain Russian rivers flow from south to north, all the way over to the Arctic, and since there are almost no people there, China wants to divert some of this water down toward its northeast. Discussions aren't advanced, but I've had conversations with water authorities in China and major energy and utility players in Russia, and they view it as all but inevitable despite the political sensitivities.

**Let's talk more about what you foresee happening to the U.S. population. Chicago's population, for example, has seeped south. But it feels like that's going to reverse. Are we going to see a big push from the south up to the north of the United States and across the border into Canada?**

**Parag:** That's right, but we don't see it in the demographic data yet. Illinois and Michigan are still losing people, but the Great Lakes region is unquestionably the most climate-prodigious zone to be in, perhaps in the entire world, given the fresh water supply and the overall stability of the U.S./Canada border. I am confident that the population of the Great Lakes region is going to expand, and it will spread across different states—Minnesota, Wisconsin, Michigan.

The Rust Belt to Sun Belt migration will eventually reverse because of the climate situation in Texas and Arizona and Florida. I'm actually advocating for that to happen as it pertains to the U.S. infrastructure bill. Infrastructure is highly politicized; every district wants its share of the pie. But that's not the way spatial planning should be done.

It's not Louisiana's fault that climate change is bringing devastating hurricanes to its shores, but it no longer makes economic sense to be rebuilding powerlines and other assets in coastal Louisiana. Instead, we should incentivize people to relocate to climate-resilient areas. Rather than spending a billion dollars a year rebuilding Louisiana powerlines that will get destroyed in the next storm, you should probably buy people who are affected a plane ticket to Detroit.

That didn't go over very well with the people of New Orleans when I wrote it in *The Washington Post* a few weeks ago. This is taxpayer money, so we have to be utilitarian.

**Let's visit one last place on our geographical tour. I want to touch on your idea that Northern Europe, Greenland, Canada, and Newfoundland can become a new trading zone in the way that the Hanseatic League in the North Sea and the Baltic Sea was. The economic center of gravity of Europe might move.**

**Parag:** Well, the core Western European economies are still the engines of the European economic commonwealth—Germany in particular, which has a fairly stable climate scenario. But there is this reemergence of the Hanseatic League, and I think it really speaks to a number of simultaneous trends.

The outbound Asian populations are now increasingly choosing Europe over the United States, and Asia represents not only most of the human population, but most of the world's young people. I predict in the next 20 years, there will be millions more Asian Europeans than there are Asian Americans.

At the same time, the northern cone of the planet is starting to take on characteristics of growing populations, with year-round economic activity. I already see the networks forming—more railways and ferries and shipping lines and airline connections; more collaboration through processes like the Baltic Union; more integration of banking systems and telecoms and so forth; and of course, more trade with each other. That's all evidence of this new Hanseatic League.

I've visited the northernmost town in the world—Kirkenes, Norway—and I've seen the population grow from 10,000 Norwegian fisherman seasonally to a year-round community with a wide range of economic activity. So I'm quite bullish on that entire zone.

**The politics are wrong for migration in most Western democracies right now. A simplistic summary is that they think more people coming in causes problems. Could you expand on that?**

**Parag:** Some of the anchors of Western culture, such as Canada and Germany, have broken from the nationalist, populist frame that we tend to ascribe to all Western and OECD countries.

Canada is pound for pound the most generous country in the world in terms of inward migration. It's increasing its population by 1% every year, and that amounts to more than 400,000 people. So Canada is on track to become a demographic superpower.

Germany has been more reluctant; you might even say accidental. But Germany has benefited from integrating asylum seekers, refugees, and other migrants over the last 30 years, through its vocational training system and so on. You can become a citizen of Germany within three years, irrespective of your heritage.

Great Britain is learning this, with Boris Johnson and "people before passports." Look at how the combination of Brexit and COVID exposed the shortage of truck drivers, nurses, doctors. It's easier to migrate to the United Kingdom right now than it was five years ago.

**Let's talk about people themselves. You use the phrase "quantum people." Can you explain what you mean by that?**

**Parag:** There are many different categories of quantum people, and they somewhat overlap. A lot of them are just youth.

But you're a quantum person if you're a Filipino nurse or an Indian construction worker and you spend your life moving around from construction site to construction site or elderly home to elderly home in different countries, collecting your paycheck and sending it via remittances around the world.

You also have tri-net-worth individuals who have five passports and many different residencies, and economies are catering to these individuals by engaging in what's called sovereign equity—selling real estate and so forth in exchange for citizenship.

Then there are the digital workers. The number of countries that have digital nomad schemes has grown from one or two, like Estonia, to more than 75. Pretty much half the world is now competing for young people to come live there, to spend money there, because consumption of services is a huge driver of our economies.

I think we have to acknowledge that most of the human species will not leave the country or the continent in which they were born. This isn't dismissive of them; ethically, I try to come up with solutions for all 8 billion people of the world. But when it comes to what will move the needle economically, it's the quantum people.

**You've created some proprietary datasets to think of ways to invest in these likely changes. In a sense, we're talking about fragility and anti-fragility, regions that will get stronger and regions that will get weaker with climate volatility. But then you get big shifts in innovation clusters, which leads to second- or third-order**

**effects. Is that a good way to think about the investment implications?**

**Parag:** That's exactly right. When it comes to the impact of climate on our property assets, we mostly focus on the downside, right? A lot of companies tell you that Miami is going to sink and that you don't want to be exposed to coastal areas in various parts of the world. But it actually is still a very vast world, and there are geographies that are going to be winners from climate change. What should they do to adapt—to gain in population and become the new core instead of the new periphery of the world economy?

I realized there should be an algorithmic approach to this, so we started pulling together datasets, and that's become Climate Alpha—a mix of climatological data, socio-economic data, and other indicators we've back tested with a 20-year time series and are now projecting forward to look at what would happen to prices across the asset classes of real estate under different climate, governance, and demographic scenarios. We even look at energy scenarios, because if a country moves more rapidly toward renewable power, it's going to decrease its current account deficits as an energy importer, for example.

But as you rightly say, it isn't so much a neat first-, second-, third-order effect. All of these changes are happening in economies simultaneously. Real estate is simply one barometer of the health or vitality of a society.

**Let's finish off with some fun stuff. You've been to a lot of countries. Which were the most scary?**

**Parag:** A tie between Venezuela and Nigeria. Despite having served in U.S. Special Operations Forces in Iraq and Afghanistan, I was never more afraid than I was in parts of Lagos and Caraccas. It's the potential for arbitrary violence. In Nigeria, you feel that at any given time someone could put a gun to your head, pull the trigger, and take the cash out of your pocket. I constantly find myself paying bribes to cross the street in parts of Nigeria.

**Biggest positive surprises.**

**Parag:** The Caucasus in general, but particularly Georgia. In the 1990s and early 2000s, Georgia was the most heinously corrupt country I'd ever been to. The cops would stop you just for existing. I was literally handing out \$5 and \$10 bills everywhere. I compared it to a tinpot West African dictatorship in my first book.

Now if you go to Georgia, you'll be mesmerized by the turnaround. It oozes charm. There are festivals going on, and the lingua franca on the streets of Tbilisi is now American English. And World Bank rankings for ease of doing business and other sorts of things underscore this. It's become a mountainous, windy East Berlin, and there's little not to love about the cost-effective lifestyle.

**Where do you really want to go that you haven't been?**

**Parag:** Papua, New Guinea. I want to hike the Coconut Trail, a very famous route where you hopefully don't get kidnapped by some heretofore undiscovered indigenous tribe. It's one of the societies that's been most studied by anthropologists for its linguistic diversity and other cultural attributes, so that would be a lot of fun.

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