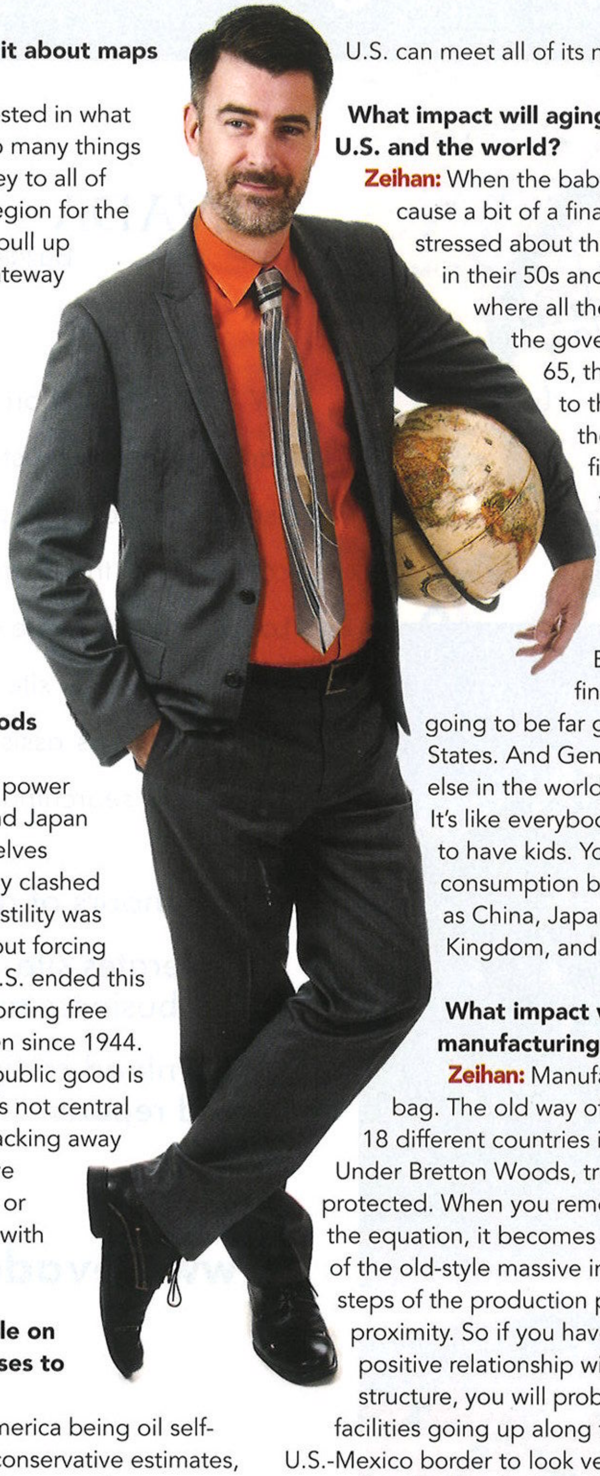
PETER ZEIHAN | GEOPOLITICAL ANALYST



You've always loved maps. What is it about maps that so captivated you?

Zeihan: As a kid I was always interested in what was beyond the next hill. There are so many things to know, see, and do. Maps are the key to all of them. So whenever I'm looking at a region for the first time, or revisiting it for a client, I pull up every map I can find. Maps are the gateway to understanding how everything fits together.

What is geopolitics?

Zeihan: Geopolitics is the study of place and how place shapes everything. Geopolitics has shaped global history and human evolution as long as we have had the ability to read and write. Geopolitics also is messy, involving everything from finance to culture to cuisine to war.

Can you briefly explain Bretton Woods and why it is so important?

Zeihan: Before World War II, major power centers such as Germany, England, and Japan used their navies to guarantee themselves resources and market access. And they clashed over those resources and markets. Hostility was a structural feature of the system, all but forcing war. At the end of World War II, the U.S. ended this system by committing its Navy to enforcing free trade. And that's how things have been since 1944. The idea that international trade is a public good is central to how the world works, but it's not central to how the U.S. works. We've been backing away bit by bit for the last 25 years. We have a President now who has not initiated or completed a single trade negotiation with anyone.

Why do you think the impact of shale on the U.S. and the wider world promises to be enormous?

Zeihan: We are looking at North America being oil self-sufficient by the end of next year. By conservative estimates, there's enough shale oil to last 20 to 25 years. That assumes no increases in exploration and that oil production costs do not drop any further. The U.S. is now not just exporting natural gas to Mexico, but also to Canada. We are looking at a radically different energy environment, one in which the U.S. can meet all of its needs.

What impact will aging demographics have on the U.S. and the world?

Zeihan: When the baby-boomers retire, it's going to cause a bit of a financial Armageddon. We are stressed about this and we should be. People in their 50s and 60s are our tax base. This is where all the money comes from to fund the government. And when they turn 65, they will move from contributors to the system to dependents upon the system. So the American fiscal situation is going to be very dark. But as a percentage of the population, the baby-boomers are the smallest of their cohort, compared to the global boomers.

Everyone else's problem with financing this mass retirement is going to be far greater than it is in the United States. And Gen Y doesn't exist anywhere else in the world except in New Zealand. It's like everybody in 1965 suddenly forgot to have kids. You will see a collapse in the consumption base in countries as diverse as China, Japan, Russia, Italy, the United Kingdom, and Germany.

What impact will these trends have on U.S. manufacturing?

Zeihan: Manufacturing is going to be a mixed bag. The old way of having assembly plants in 18 different countries is probably going to go away. Under Bretton Woods, transport is safe, cheap, and protected. When you remove the American Navy from the equation, it becomes much less safe. I see a return of the old-style massive industrial park where several steps of the production process happen in fairly close proximity. So if you have a country that you have a positive relationship with that has a different wage structure, you will probably see a lot of manufacturing facilities going up along those borders. I expect the U.S.-Mexico border to look very positive in the future. But if you are involved in a 20-step supply chain that touches Asia and Europe, you can pretty much count on that vanishing.

You've mentioned that the U.S. has a unique geographical footprint, as compared to much of the

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world, which sets up the country for continued success. Please explain.

Zeihan: The Greater Midwest is the single largest chunk of contiguous arable land in the world. From a food production and population-sustaining point of view, it is by far the best. But what really makes it work is the Greater Mississippi system. It overlays the best land, which includes the intercoastal waterway that goes all the way up to Chesapeake Bay. Nearly all of the American population, well over 85 percent, is within 100 miles of one of these navigable waterways. It's much easier to move goods on water than it is on land. Counting "merely" the cost of locomotion and fuel, waterways have a 12 to 1 advantage over road transports. Factor in everything else from infrastructure to insurance and it goes up to 50 to 1.

You believe the next 15 years will be an extraordinary period for the U.S. Why is that so?

Zeihan: I think the next 15 years will be a very painful process for most of the world, but I think it will be least painful in the U.S. You're going to be watching the stability that we grew up with fall away. But the U.S. will be the number-one destination for skilled immigration and capital flight. We will have the resources that we need. Elsewhere in the world, you're going to be looking at resource wars, industrial collapse, and economic depressions. By 2030, the U.S. boomers will have mostly died off, and the financial crush of supporting their pension system and healthcare will be gone — but the rest of the world just keeps getting older, sicker, and less viable. That is when the American century really begins.

THE ASSIGNMENT

One of **Area Development**'s staff editors recently interviewed Peter Zeihan, a former analyst at the geopolitical security firm Stratfor and author of **The Accidental Superpower.** Zeihan discusses the North American shale boom and the role of the U.S. in protecting global trade.