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Future State 2030: The Global Megatrends Shaping Governments

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Policy, Regulation, Programs, Skills, Strategy, Globalisation

Future State 2030 tackles the modern global megatrends that already impacted on the world and its governments. Megatrends, as per described by the publication, are the "larger forces" that shape governments, their tools and the approach taken to deal with related emerging issues. These megatrends are long-term movements that are relevant worldwide, regardless of the nation size, region or the level of prosperity.

KPMG International identifies three main trends – "Individuals", "Physical Environment", "Global Economy" – in which the total of nine megatrends are classified into: Demographics, Rise of the Individual, Enabling Technology, Climate Change, Resource Stress, Urbanisation, Economic Interconnectedness, Public Debt, and Economic Power Shift.

Individuals

Demographics, grouped under "Individuals", encompass the issue of an ageing population facing falling birth rates. This translates into more pressure on healthcare spending and public pension systems. Simultaneously, developing countries are also facing a "youth explosion" in need of employment. The implications of these issues for the governments will involve the development and adjustments in the policy settings and strategies to stimulate job creation and human capital investments, and to adapt the health care, social welfare and pension systems to the needs of the aging populations.

The **Rise of the Individual**, under the same category, concerns the improvements that the empowering of education and technology has brought to the society. The world's middle class is increasing, especially in developing regions: a boost in emerging growth opportunities. Whilst the people's connectivity through the internet and the social media has led to an increase in demand for services, transparency and participation, 71% of the world lives in nations where income inequalities exist, and this figure is unfortunately and paradoxically on the rise. Governments will have to review their trade policy orientations to take advantage of the emerging growth opportunities, develop a strategy to meet the demands of the growing middle class and connected society, and envisage progressive tax systems to balance income inequality.

Enabling Technology, also under "Individuals", depicts how the fast growth of technology has led to great development, research, and communication advances. This results in an increase in global internet users and in the creation speed of digital data. The impacts of technology include new manufacturing systems, improved and faster data storage, new social services models, revolutionised transportations, enhanced communication, a transfer of security and policy focus to cyber-crime, and a weakening of the boundary between what is public and what is private. Governments may need to address the shorter skills' lifespan, prepare for positive and negatives impacts of new technologies, become early adapters of new technologies and take advantage of the new communication channels to better reach and hear the citizens.

Global Economy

Under Global Economy, the first megatrend is **Economic Interconnectedness**. Levels of international trade are increasing along with capital flows, and people are being lifted out of poverty as a result. Trade barriers are falling, and the trade and investment relationships are increasing growth. However, the risks accompanying economic interconnectedness go beyond the scope of national regulation, and have a greater and faster impact, making every participant more vulnerable to exogenous events. This means that governments have to put an emphasis on international cooperation, put in place measures to control the global financial and market "domino effect" risks, and maintain awareness on the profitable rising global markets to encourage growth in trade relationships.

Highly interrelated with the latter megatrend, also under Global Economy, is **Public Debt**. This is the most challenging aspect of our modern societies, where exposure and vulnerability against exogenous shocks due to economic interconnectedness is at its peak, and where the general trend pre-2008 was to accumulate considerable amounts of debt, which in turn made the global financial crisis more persistent. This is why international and intergovernmental fiscal relationships need to be the focal point. Adding onto public debt is also the aging population that is pushing up the health and pension spending. To improve the balance sheet and ensure fiscal sustainability, governments will need to be stricter on expenses, increase financial awareness in political leaders, put in place independent fiscal advisory bodies, and improve fiscal measurements and sustainability.

The last megatrend in this category is **Economic Power Shift**. The growing influence of emerging economies is rebalancing the global power. They now play an important part in international finance and drive most of today's growth. This is an opportunity for governments to focus on innovation to ensure sustainable growth. Unfortunately, inequalities are growing as well, as outlined in the Rise of the Individual megatrend. Governments should improve their participation through trade agreements and by reviewing their management of direct foreign investment. Strategies to attract domestic foreign investment should be prioritised along with better understandings and tools to make pertinent scenario analysis of their economic comparative advantage.

Physical Environment

The first megatrend in the Physical Environment category is **Climate Change**. Greenhouse gas emissions are on the rise, which leads to a global warming resulting in the melting of ice sheets, drying of forests/rainforests, endangerment of several species and would ultimately result in the displacement of many people due to the rising sea levels. Multilateral cooperation has to be enhanced; governments have to work together to set targets and carbon pricing, and adaptations have to be made for the already existing effects of the climate change. Governments will have to seriously address the issue of relocation of the coastal cities population, and develop long-term plans that involve mitigation strategies for extreme weather events.

Resource Stress is a very serious Physical Environment megatrend. The population growth is putting pressure onto food, water, energy and arable land supplies and challenging our sustainable resource management methods. Excess demand over a shortage of supply will drive prices up strongly and may also encourage 'resource nationalism'. Governments need to develop efficient strategies to balance the demand and supply, and revise the models of collaboration with suppliers whether they are at private or governmental level. Rules and protocols on resource-sharing across countries should be implemented and followed before the shortage of supplies becomes too severe.

The final megatrend analysed by the publication is **Urbanisation**. This is the growth of population in cities, mostly in the developing world, giving social and economic development

opportunities. This growth puts pressure on city infrastructures and resources such as housing, water and energy. Increased poverty levels could equally be a risk. This megatrend is also a challenge when it comes to conciliating the built and natural environments. Governments will have to plan growth-oriented long-term infrastructures for cities taking into account the need for improved transportation and technology. Services such as health and education access must be adapted to reach the whole population, and economic growth must follow the urban growth to ensure the advance of service capacity.

KPMG's analysis on megatrends suggests that governments have a lot of opportunities and challenges to adapt to and take into account. Their actions, whether they are modifications or a continuation of their usual procedures, will significantly reshape governments in the next 15 years.

As seen in KPMG's Future State 2030, the developing world seems to be on the frontline of most of the identified megatrends. Nonetheless, the world is highly interconnected in the modern age, and both challenges and opportunities stemming from these megatrends have a global impact. If both developed and developing countries learn to grasp those opportunities, the results will be faster growth rates in many desirable aspects such as the economy, financial markets, gross domestic product, social development, etc...

Unfortunately, considerable challenges accompany these opportunities, with equally global and vast impacts. The more the megatrends advance, the more the control and mitigation of these challenges is crucial: growth opportunities can only be fully seized and maintained when the risks are being managed correctly. Income inequalities, poverty, stress on resources, pressure on welfare/social/health care systems, pressure on infrastructures, demand for transparency and responsible decision-making are just a few of the many risks and challenges the world is currently facing and will continue to face.

With this reality in mind, the developed world must not only continue their support to the developing world, but it must also control these 'super' growth rates so that there is no space left for the degradation of security, of the living standards and basic rights, and of equality that characterise our biggest assets as developed political, social, economic and geographical regions.

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