

LOWY INSTITUTE

FOR INTERNATIONAL POLICY

**The Future State of the World
As It Relates to the Australian Aid Program**

Final Report

11 March 2011

The views contained in the paper are those of the author and are not indicative of the views of the Australian Government or the Review Panel.

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1. Introduction

In January 2011, the Australian Government's Independent Panel to Review Aid Effectiveness commissioned the Lowy Institute to undertake a study of the future state of the world as it relates to the Australian Aid Program.

Lowy Institute researchers have conducted a broad review of statistical projections, global strategic, economic, political and social trends, long-term dynamics in development and development assistance, reports on the likely evolution of the world undertaken by governments and research organizations, and emerging dynamics in finance and trade, demography and climate, food, resources and water production and consumption, and governance and institutions.

Despite the current attention on the Millennium Development Goals, there are clear indications that the nature and definition of the development challenge is changing, and will continue to evolve between 2015 and 2020. According to World Bank statistics, global poverty has been reducing at an average rate of one percent per year between 1980 and 2005, although some estimates suggest an even more rapid decline.¹ The global financial crisis briefly pushed rates higher, but the World Bank projects a likely continued fall in global poverty, albeit at lower rates. Patterns of poverty reduction point to a markedly different global profile by 2020. For a large number of developing countries, extreme poverty will have fallen to below 5 per cent of their populations. In some cases, this is up to four times less than the 2005 estimates. The exception will be in sub-Saharan Africa and South Asia although in both cases, there will have been remarkable advances in lowering the percentage if not numbers of extremely poor people in both regions.

In South Asia, the fall in the poverty rate will continue to be offset by population growth, resulting in no decline in the absolute number of poor. Similarly in sub-Saharan Africa, population growth will result in roughly the same number of people living in extreme poverty by 2020 although the overall percentage will have dropped by a significant 18 per cent. At the same time, despite the massive reductions in extreme poverty in other parts of the developing world, 20 per cent of the world's poor will be in Australia's close neighbourhood, East and South-East Asia.

Overall, however, the progress against poverty will mean that for the first time since the early 1990s when poverty and its reduction became the major international goal, other concerns will start to appear at the head of the development agenda.

¹ See Laurence Chandy and Geoffrey Gertz, "Poverty in Numbers: The Changing State of Global Poverty From 2005 to 2015", Brookings Institution, Washington DC, 2010 at http://www.brookings.edu/papers/2011/01_global_poverty_chandy.aspx#; see the World Bank's Martin Ravallion's skeptical review at <http://blogs.worldbank.org/developmenttalk/new-brookings-study-is-overly-optimistic-on-progress-against-poverty>.

Already, our ability to generalize about one “developing” world is increasingly open to question.² Other development challenges will become more pressing and widespread across the developing world: the consequences of climate change; rapid urbanization, overcrowding and vulnerability; food, water and energy stress; and pandemic diseases.

This report is divided into five parts. The first three discuss what we judge to be the major influences on global development and development assistance in 2015-2020. These are:

- (a) the preoccupations and concerns of donors;
- (b) persisting and emerging conditions in the developing world; and
- (c) transnational capabilities and causes that transmit risk between the developing world and the developed world.

Section four will explore potential “swing factors” that may significantly reshape the trends identified in the first three sections and thereby impact on Australia’s aid program. Section five will canvass the potential implications of the major influences on future global development and development assistance as identified in Sections One to Three, and the potential “swing factors” identified in section four, for the shape of the Australian aid program in 2015-2020 in respect of aid policy, design and delivery.

2. The Preoccupations of Donors

An analysis of development assistance trends since the OECD’s Development Assistance Committee first started collecting aid statistics from its donor members in 1960 suggests strongly that major developments in foreign aid have tended to coincide with pivotal international events and crises impacting on the economic and security prospects of developed nations, which are also the major donors.³ Not only have aid budgets been boosted or shredded in response to these paradigm-changing events, but aid thinking and approaches have also been significantly influenced by non-aid global happenings and preoccupations.⁴

Four key strategic trends are likely to shape the calculations, behaviour and capacities of donor economies during the decade to 2020. These four factors, when taken together, will have a significant impact on the supply and diversity of development aid; they are also likely to have a major impact on which partners Australia collaborates with – and perhaps competes with – with its development aid program.

(a) The Emergence of a Two-Speed Global Economy

The global financial crisis (GFC) had the effect of accelerating an existing trend in the divergence of the economic performance and capacities of developed and emerging

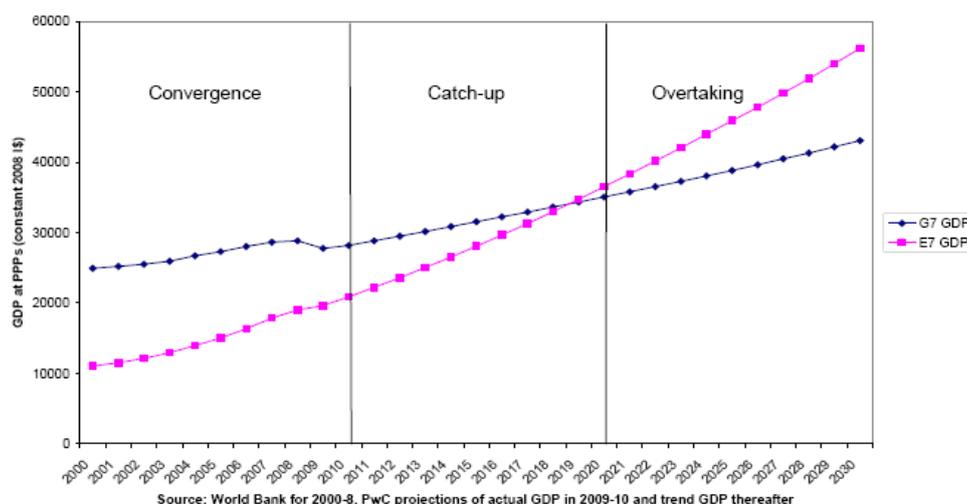
² Robert Zoellick, “The End of the Third World? Modernising Multilateralism for a Multipolar World”, Speech to the Woodrow Wilson Center, Washington DC, 14 April 2010.

³ Such events include periods of escalating or relaxing Cold War tensions, the succession of oil shocks and their medium term impacts on developed economies, the end of the Cold War, and the 9/11 terrorist attacks; see Table 1 in Appendix 1.

⁴ Roger C. Riddell, *Does Foreign Aid Really Work?*, Oxford University Press, 2007, pp. 31-36.

economies.⁵ For the best part of a decade before the onset of the GFC the economies of Europe, North America and Japan were grappling with the onset of demographic aging, sluggish economic growth, rising unemployment and mounting government debt in the face of generous health and social welfare commitments. At the same time, emerging economies, particularly in Asia, were growing at rapid rates, with strong employment growth, current account surpluses and large foreign exchange reserves, and high savings rates. There was a strong trend towards a “great overtaking” of developed by emerging economies in terms of both absolute size and economic dynamism.⁶

Figure 1: Convergence, catch-up and overtaking
GDP at PPP



Source: John Hawksworth, *Convergence, Catch-up and Overtaking: How the Balance of World Economic Power is Shifting*, London: PriceWaterhouseCoopers, January 2010

The GFC only accelerated these trends. In the developed world high levels of personal debt were soon surpassed by public debt as governments bailed out banks and tried to reflate economies. According to IMF figures, gross government debt as a proportion of GDP among developing countries will climb from an average of 73 per cent in 2007 to 110 per cent in 2015.⁷ The aftermath of the GFC has seen a succession of economic aftershocks around the developed world, anemic growth, government austerity, stubbornly high unemployment and a deepening of political divisions and policy gridlock. As some governments have enacted severe austerity packages to try to rein in debt, questions have been raised about the resulting effect on their chances of economic recovery. With these medium- to long-term conditions, matched with low interest rates and growing investment risk profiles, most economists are predicting the malaise in the developed world will continue for the best part of a decade.⁸

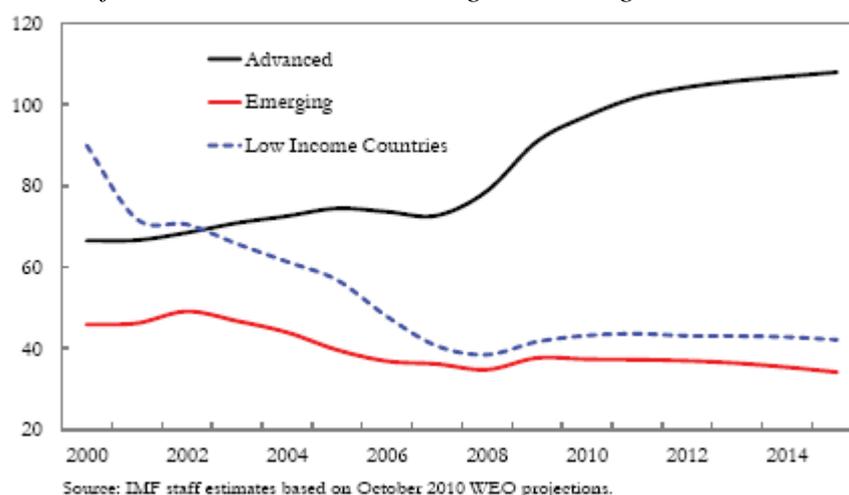
⁵ OECD, *Perspectives on Global Development 2010: Shifting Wealth*, Paris: OECD, 2010.

⁶ John Hawksworth, *Convergence, Catch-Up and Overtaking: How the Balance of World Economic Power is Shifting*, London: PriceWaterhouseCoopers, January 2010.

⁷ International Monetary Fund (IMF), *Fiscal Monitor: Navigating the fiscal challenges ahead*. World Economic and Financial Surveys. Washington DC, International Monetary Fund, 14 May, 2010.

⁸ Mark Thirlwell, “Our Post-GFC World Economy”, Lowy Institute Perspectives Paper, December 2010.

Figure 2: General government gross debt ratios
Per cent of GDP; 2009 GDP-PPP weighted average



Source: *IMF Fiscal Monitor*, November 2010

The persistence of these trends among the traditional donor community of developed economies is likely to exert real pressure on development aid budgets. While governments such as in the UK have managed to quarantine development assistance commitments from austerity measures thus far, the ability of developed country governments to maintain strong development assistance programs in the face of growing social discontent, sluggish economic growth, high public debt, and ongoing austerity packages, must be questioned. Prolonged anemic growth will likely exacerbate economic inequalities within developed countries, generating significant resentment and demands for government assistance.⁹ At the same time the emerging performance gap between developed and emerging economies (some of which continue to receive development assistance while being seen to be poaching jobs from the developed world) will likely generate greater scrutiny of development assistance.¹⁰

The picture looks very different for emerging economies, which were barely affected by the GFC and have registered strong growth rates since. They face very different challenges: rapid rates of economic growth; escalating energy, food and resource needs; rapid urbanization and demand for infrastructure; managing high volumes of inbound investment; keeping a lid on rising inflation, overheating of the economy and asset bubbles. The growing stature and size of emerging economies, and their ongoing concerns about energy and resource supply security, will draw them further into the field of development assistance.

⁹ Michael Elliott and Michael Schumann, "The World Economic Forum in Davos: A Changed Global Reality" *Time*, 31 January 2011.

¹⁰ For example, within the same week in mid-February 2011, the Australian aid commitment to Indonesia and the British aid commitment to India were subjected to criticism and attack.

(b) The Emergence of New Donors

Non-OECD development assistance donors have existed for many decades, but over the past ten years they have begun to have a noticeable impact on the global development picture. Emerging economies with growing pools of financial resources, significant and expanding strategic interests, and rapidly emerging dependence on imported energy, food and minerals, have begun to develop programs of development assistance without reference to OECD frameworks or agreements. Many of these new donors still see themselves as developing countries despite the absolute size of their economies, and have a genuine commitment to South-South collaboration to match the strategic and instrumental objectives of their aid programs.

Some of the development assistance programs of emerging donors have begun to impact on OECD DAC members' own development assistance strategies. China's strong preference for building infrastructure in the developing world, and its unwillingness to attach governance or accountability conditions to its development assistance, have begun to challenge the relationship between developed country donors and recipients.¹¹ Often the development assistance provided by newer donors can have unintended consequences for recipients, such as unusable infrastructure and unmanageable repayment obligations.¹² As China and other large emerging economies¹³ ramp up their development assistance in the coming decade, driven largely by strategic, minerals, energy and food interests, the challenge to the OECD DAC frameworks will become even greater.¹⁴

Strategy and tighter commodities markets will mean that development assistance will increasingly acquire a geostrategic edge. Developing countries are already aware that the emergence of major emerging country donors gives them an alternative to developed country donors, which invariably attach conditions to their development assistance. This cannot but force a rebalancing of development priorities and philosophies among developed country donors, even more heavily towards national interest considerations, and away from altruistic and humanitarian considerations, in the targeting and delivery of their development assistance.

Emerging country donors will be attractive for reasons other than strategy and self-interest. The emerging economies' own stunning economic successes offer an alternative model for developing countries, which have long been faced with a choice between western neoliberal doctrine or command economy models.¹⁵ Emerging economies' recent record of lifting hundreds of millions of people out of poverty without slavish adherence to all of the policy strictures of the "Washington Consensus" has caught the attention of the rest of the developing world. The global

¹¹ Carol Lancaster, "The Chinese Aid System", Centre for Global Development Essay, June 2007.

¹² Fergus Hanson, "China: Stumbling Through the Pacific" Lowy Institute Policy Brief, July 2009.

¹³ Including South Korea, United Arab Emirates, Kuwait, Venezuela, Saudi Arabia; see Ngaire Woods, "Whose Aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance", *International Affairs*, 84:6, 2008; Lidia Caabral and Julia Weinstock, Brazil: An Emerging Aid Player, ODI Briefing Papers 64, October 2010; and Dweep Channa, "India as an Emerging Donor", *Economic and Political Weekly*, 64:12, 21 March 2009.

¹⁴ Thomas Lum, Hannah Fischer, Julissa Gomez-Granger and Anne Leland, "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia" CRS Report for Congress 7-5700, Washington DC: Congressional Research Service, 25 February 2009.

¹⁵ Joshua Cooper Ramo, "The Beijing Consensus" London: The Foreign Policy Centre, 2004.

financial crisis has only emphasised the divergence in economic performance between developed and emerging economies and has stimulated new debates over the best way to promote sustainable economic growth.¹⁶

Another competitor to established country donors over the past decade has been radical religious organizations, particularly in the Muslim world. Many Islamic NGOs have filled the space left by governments unwilling or unable to supply broad access to public services such as health and education by providing social services. Through schools, hospitals and other services, such NGOs are able to proselytize among poor and marginalized populations. It has been estimated that hardline Saudi Wahhabi backers have distributed approximately US\$87 billion to Islamic NGOs across the world over the past two decades.¹⁷ Islamic NGOs have played an increasingly prominent role in disaster recovery and the defence of Muslim communities from ethnic violence. One impact of the growing prominence of religious development assistance has been to imbue the development agenda with a “civilizational” edge – increasingly putting representatives of traditional donors and development agencies at risk of attack by those who believe they represent a western or “crusader” agenda.¹⁸

New donors are also emerging from the private sector in developed countries. Non-state donors are increasingly influencing international aid behaviour as their share of total aid flows to developing countries increases. According to the 2010 Index of Global Philanthropy and Remittances, aid from NGOs and private foundations amounted to \$53 billion in 2008, compared to \$121 billion from official sources.¹⁹ This ratio of almost one private dollar for every two dollars of official aid is significantly higher than a decade ago when the ratio was closer to one to five. While the GFC has seen a drop in private philanthropy and remittance flows, developments such as the “Giving Pledge” campaign mounted by US billionaires Bill Gates and Warren Buffett suggest that private philanthropy will continue to be a significant development assistance donor. Large philanthropic foundations are often more nimble than bilateral donors, and there is an increasing trend towards mutual support and assistance between official and private development assistance.²⁰

But it is not just private sector philanthropists who are having a major impact on development. Private sector corporations are increasingly engaged in development through their investment activities in developing countries. There is evidence that some companies see development as core to their business rather than as a corporate social responsibility side issue. This is most obviously the case in countries where governments are weak and service delivery is poor. The private sector, with sufficient incentives, is able to reach areas that government cannot and provide services to the poorest communities in many developing countries. The growth of the private sector

¹⁶ Francis Fukuyama, “US democracy has little to teach China”, *Financial Times*, January 17, 2011.

¹⁷ Curtin Winsor Jr., “Saudi Arabia, Wahhabism, and the Spread of Sunni Theofascism.” *Mideast Monitor*. July 2007. Web. 20 Jan. 2011.
http://www.jmhinternational.com/news/news/selectednews/files/2009/07/20090708_MideastMonitor_SaudiArabiaWahhabismAndTheSpreadOfSunniTheofascism.pdf, p. 5.

¹⁸ See for example Abdel-Rahman Ghandour, “Humanitarianism, Islam and the West: contest or cooperation?” Humanitarian Practice Network, <http://www.odihpn.org/report.asp?ID=2582>.

¹⁹ The Index of Global Philanthropy and Remittances 2010, Hudson Center for Global Prosperity, Washington, 2010.

²⁰ Raj M. Desai and Homi Kharas, “The California Consensus: Can Private Aid End Global Poverty?” *Survival*, Vol. 50, No. 4, September 2008.

in emerging markets will be instrumental in transforming living standards over the next decade. Public-private partnerships offer opportunities to team the talent of the private sector with the financial guarantees of governments and/or donors in risky environments. Private sector investment in development will grow as investment in emerging markets is increasing rapidly. Minerals-rich countries will continue to attract sustained investment. But small resource-poor countries with weak foreign investment enabling infrastructure that are distant from major markets or that have high risk factors will continue to struggle to attract investment.²¹ These countries will need the support of donors to guarantee risk for private investors or fund better infrastructure and even assist with generating employment.

(c) Implosive States

The past decade has seen a growing concern among developed countries about certain states in which a range of troubling strategic trends converge and meld: rapid population growth, education deficits, religious extremism, dysfunctional urbanisation, ethnic and communal strife, corruption and other failures of governance, terrorist violence and clumsy, counter-productive counterterrorism efforts, localised interstate tensions, great power rivalry, nuclear proliferation, inadequate infrastructure, vulnerability to natural disasters, water insecurity, disease, and potential for accelerated impacts from climate change. Pakistan is the most obvious candidate in this group, but other strategically vital states – North Korea, Burma, Bangladesh, Afghanistan, Yemen, Somalia – also exhibit worrying combinations of some of these factors. Ongoing chronic instability or the catastrophic collapse of any of these states threatens both serious transnational impacts on their neighbours and the developed world, as well as the potential for increasing great power rivalries.

For these reasons, there will not only be strong humanitarian imperatives to increase aid flows to Pakistan; there will also be very strong security imperatives. Humanitarian imperatives in other countries may be more demanding, for instance in parts of Africa, but the combination of humanitarian and global strategic concerns make dangerously fragile states particularly compelling as development assistance candidates.²²

The sudden collapse of any of these states would require a massive and co-ordinated humanitarian and stabilisation response, even just to minimise the cross-border and transnational damage.²³ The commitment to stabilising and rehabilitating an imploding Pakistan or North Korea would absorb a large proportion of development assistance budgets, forcing a major re-orienting of other development spending and priorities.²⁴ For strategically pivotal states such as these, there would be a range of

²¹ Most countries in the South Pacific will fall into the latter category; the exceptions are PNG and Timor Leste which will see major investments in their minerals sectors deliver substantial income in the coming decade – which will create challenges as well.

²² Marina Ottaway, “Rebuilding State Institutions in Collapsed States,” *Development and Change*, Vol. 33 No. 5, (2002), pp. 1001-23.

²³ The experience of the poorly-resourced post-conflict phase in Iraq will stand as a medium term warning against trying post-collapse reconstruction on the cheap.

²⁴ In 2004, a panel of 13 experts headed by former Hamburg Mayor Klaus von Dohnanyi charged with examining the reconstruction of Germany's eastern states estimated that the rehabilitation and reconstruction of Germany's eastern states had cost €1.25 trillion (US\$1.54 trillion) over 14 years, but had failed to deliver substantive progress.

assistance providers, some of which would have competing strategic imperatives, making the task of designing and implementing an effective response even more challenging.²⁵

More broadly than such fragile states, the task of post-conflict reconstruction, in countries such as Afghanistan and Iraq, is likely to be an ongoing requirement well into the next decade. Countries recently, currently or potentially experiencing serious conflict affecting their intrinsic stability and coherence (and therefore possibly needing post-conflict reconstruction aid in the coming years) include Somalia, Sudan, Cote D'Ivoire, Pakistan, and Yemen.

(d) Global Governance: Another Decade of Retreat

The rise of emerging economies to regional and global prominence and influence has brought a greater diversity of interests and perspectives to the leading countries in global affairs than ever seen before. Many of the emerging economies among the world's 20 largest see themselves as developing countries which face real challenges of resource and energy access and internal development and stability, and consequently have few resources to devote to global leadership.²⁶ This situation will endure for the next decade, further intensifying an already prominent trend – the inability of multilateral mechanisms at the global or regional levels to take concerted, decisive action.

Alongside the growing diversity of perspectives and interests among the great powers is evidence of the increasing sclerosis and out-datedness of multilateral structures, many of which are now well into their seventh decade with very little organisational evolution apparent. The United Nations has shown itself to be increasingly ill-suited as a forum for addressing the most pressing global challenges, from climate change to nuclear proliferation. The World Trade Organisation shows little signs of progress towards a new round of global trade liberalisation. Regional institutions, from the European Union to ASEAN, appear to have no compelling forward agenda.

The malaise of multilateral institutions is occurring at a time when the international community is more seized of difficult and complex global problems than ever before. The scale and inter-connectedness of problems such as climate change, systemic financial instability and terrorism demand the sort of coordinated action that international institutions are simply not able to facilitate. In place of multilateralism there seems to be the beginnings of an organic development of plurilateral action and agreements: overlapping understandings and partnerships between small groups of countries to address particular issues. Whether the combination of all of these arrangements can take the place of effective multilateral action is uncertain.²⁷

²⁵ United States officials report that their repeated attempts to discuss post-collapse reconstruction of North Korea with Chinese officials have been met with complete non-co-operation.

²⁶ Ann Kent, *Beyond Compliance: China, International Organizations, and Global Security*, Stanford: Stanford University Press, 2007.

²⁷ Most prominently, the proliferation of Preferential Trade Agreements in the absence of meaningful global action on free trade over the past decade; see Jiro Okamoto (ed) *Whither Free Trade Agreements? Proliferation, Evaluation and Multilateralization*, Tokyo: Institute for Developing Economies, 2003.

The crisis of international governance will affect the capacity to deliver a concerted development effort across all donors and participants. The established institutions that attempt to achieve this – the UNDP, the OECD’s Development Assistance Committee, the World Bank, and the regional Development Banks – have proved unable to co-ordinate development aid among developed and emerging donors on an ongoing basis, although most have demonstrated capacity to manage and coordinate emergency donor responses to crises in developing countries.

The rise of the G-20, however marks an historic shift in the balance of economic power. It could yet emerge as the institution most capable of serving the needs of the international community. The G-20, which produces more than 85 per cent of the GDP and is home to two-thirds of the world’s population, is now viewed as the premium forum for international economic co-operation. Whether it will succeed in being more effective than developed country groupings like the G8 or the OECD, will ultimately be determined by the quality of leadership of its members.

The Seoul Development Consensus for Shared Growth, endorsed by the G-20 Leaders’ Summit in November 2010 was effectively a rejection of the Washington Consensus and reflected the broader range of alternative growth experiences of the G-20 membership. It is too early to assess whether this new Consensus will shape a new global approach to development but the membership of the G-20 suggests it could attract sufficient support in developed and developing countries.

2. Conditions in the Developing World

Rapid development, declining poverty, population growth and urbanisation, growing connectedness and mobility and new forms of vulnerability have begun to change the development challenges faced by the developing world. Four main drivers will shape the development challenges in the developing world over the next decade; taken together they are likely to prompt a relative shift in the aid agenda away from progressive development promotion towards risk and fragility mitigation and response in the developing world.

(a) Climate Change, Fragility and Risk

There is a growing realisation – unofficially – that the wide divergence of states’ positions on greenhouse gas mitigation action is unlikely to be resolved in the near future, making globally coordinated and decisive action on reducing greenhouse gas emissions by 2020 unlikely. Even if meaningful action is agreed to within the next 2-5 years, the climate effects of historical emissions are likely to be significant. Countries that take the threat of climate change seriously will turn their attention increasingly to adaptation. Meanwhile, the effects of climate change will accelerate other transnational challenges, from unregulated people movements to increased rates of piracy as a consequence of the loss or despoilment of agricultural land or the decline in global fish stocks.

Many of the earliest effects of climate change will fall on fragile developing countries. Anthropogenic climate change, changing weather patterns, rising population density and lifestyle choices in vulnerable countries all have the capacity to exacerbate food, water and energy scarcities over the next fifty years. Although

there is debate about long-term trends in sea level rise in the Pacific Islands region,²⁸ life in low-lying atoll countries in the Pacific such as Kiribati, the Marshall Islands, Tokelau and Tuvalu is increasingly marginal due a range of factors such as storm surges, coastal erosion, volcanic and tectonic activity. The topography, high ratio of coast to land area, relatively dense populations and subsistence economies based in coastal zones²⁹ makes management of climate change difficult for the atoll states. Projections of sea-level rise affecting the densely populated Bangladesh suggest that by 2030 land occupied by 10 million Bangladeshis would be inundated.³⁰

There is already a strong linkage made between development and responsibility for climate change in current climate change negotiations. Any proto-agreement will likely involve substantial compensation payments, and it is not certain that a carbon pricing regime will be comprehensive enough to finance these. Whether or not such an agreement is negotiated, there will be more pressure on developed countries to increase aid for mitigation and adaptation projects throughout the developing world and to develop new energy-saving technologies. The global costs of supporting developing countries to adapt and make necessary changes to deal with climate change will be close to \$60 billion per annum by 2015.³¹ Australia, as a developed nation, is expected to contribute \$2 billion per annum.³² Holding developed nations to their funding commitments for mitigation and adaptation efforts in developing countries will be a challenge. Larger proportions of aid budgets are likely to be consigned to climate change mitigation in the future but developing countries will be frustrated if these allocations are made from existing rather than new aid commitments.

²⁸ The scientific challenge to the arguments posed by Pacific Island governments about their sea level rise is put in Vincent R. Gray, *South Pacific sea level: a reassessment*, SPPI Original Paper, August 2010, http://scienceandpublicpolicy.org/south_pacific.html.

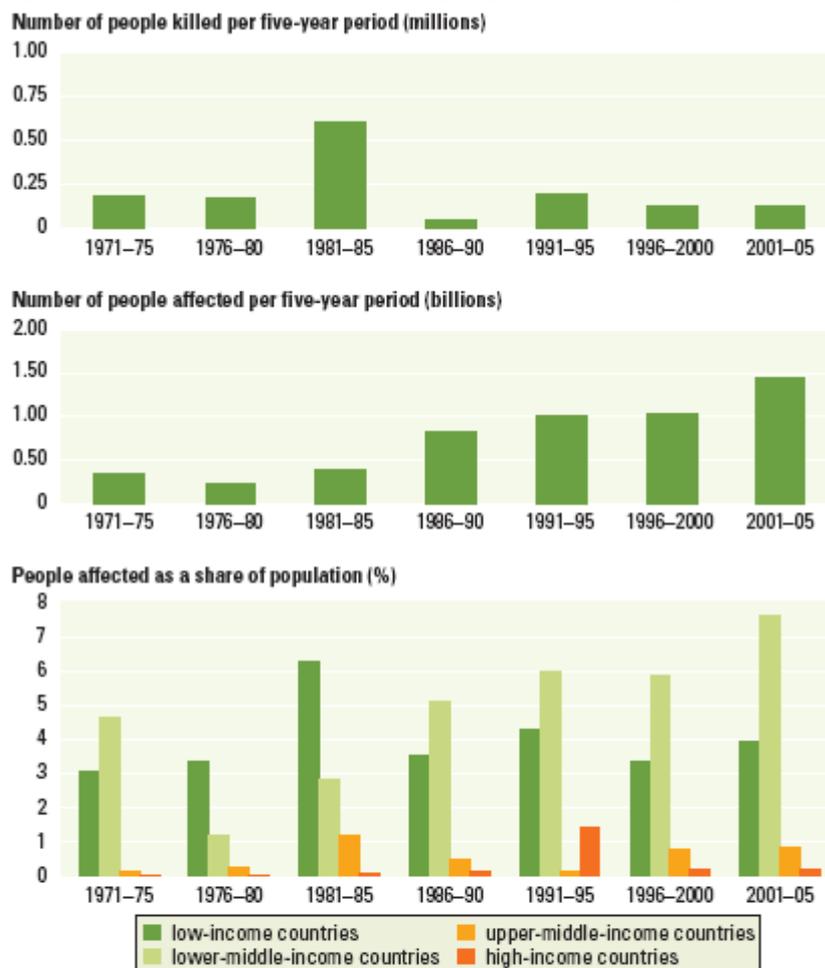
²⁹ Alan Dupont and Graeme Pearman, *Heating Up the Planet: Climate Change and Security*, Lowy Institute Paper 12, Lowy Institute for International Policy, 2006.

³⁰ Robert D. Kaplan, *Monsoon: The Indian Ocean and The Battle for Supremacy in the 21st Century*, New York: Random House, 2010, p. 139; Md. Golam Mahabub Sawar, *Impacts of sea level rise on the coastal zone of Bangladesh*, Lund University, 2005, p. 12, Accessed on 11th March, 2011 from: http://v3.weadapt.org/placemarks/files/225/golam_sarwar.pdf.

³¹ United Nations Development Program (2008), "Fighting climate change: Human solidarity in a divided world," Human Development Report 2007/2008, Accessed on 21st January, 2011 from: http://hdr.undp.org/en/media/HDR_20072008_Summary_English.pdf.

³² Linda Mottram, (2009), "Climate accountability lacking in Australian budget," Radio Australia: Pacific Beat, 13 May, Accessed on 21st January, 2011 from: <http://www.radioaustralia.net.au/pacbeat/stories/200905/s2569462.htm>.

Figure 3: Increase in number of people affected by climate disasters



Sources: WDR team; CRED 2009.

Note: Over the past 40 years the death toll has fallen but the number of people affected has doubled every decade. (People affected are those requiring immediate assistance during a period of emergency and can also include displaced or evacuated people.) In lower-middle-income countries almost 8 percent of the population is affected each year. The increase cannot be attributed only to climate change; much results from population increase, greater exposure of infrastructure and improved reporting of disasters. However, the impacts on people are just as real and show why it is so essential to begin focusing on the current adaptation deficit while looking ahead to a more climatically stressful future.

Source: World Bank, *World Development Report 2010*

Increasing the fragility of developing countries is the habitation and migration of large numbers of poor people into regions at risk of major disaster. Developing countries are disproportionately affected by natural disaster: the average number of deaths per disaster in the developed world is 23, while in the poorest countries this average is 1,052.³³ The Gangetic plain (inhabited by one-tenth of the world's population), the Yangzi River Valley, and low-lying coastal regions in Bangladesh are prominent examples of high-density, high-poverty human habitation in regions disproportionately exposed to large-scale natural disaster: floods, droughts, earthquakes or cyclones.³⁴ Meanwhile contemporary attempts to build systems of

³³ "The Right to Survive: The Humanitarian Challenge for the Twenty-First Century." *Oxfam International*. 20 April 2009. Web. <http://www.oxfam.org/sites/www.oxfam.org/files/right-to-survive-report.pdf>.

³⁴ UNDP, *Reducing Disaster Risk: A Challenge for Development*, New York: United Nations Development Program, 2004.

resilience into such regions are more often than not overwhelmed by the continued migration of people into these regions. The European Union estimates that the frequency of natural disasters has increased five-fold over the past 35 years, and the damage caused by them by between seven and eight times. Developing countries are disproportionately clustered in regions more susceptible to either seismic or climatic natural disasters, and the combination of risk-taking patterns of settlement, climate change and fragility make for an increasing likelihood of sudden and massive humanitarian catastrophes in the developing world during the next decade.

The challenge of disaster management will only be made more compelling by the growing geostrategic element to disaster response that has become apparent over the past ten years and will probably grow over the next decade. Countries' recovery and assistance responses to disasters such as the 2004 Boxing Day tsunami or the 2009 Pakistan earthquakes are readily compared in ways that are seen to reflect on their commitment to positive engagement and friendship with the affected country.³⁵ Since 2000, global spending on disaster response has increased by nearly 60 per cent to US\$11.2 billion – a trend that is likely to continue.³⁶ As great power competition in the Indo-Pacific develops into a competition for alignments, the soft-power payoffs from disaster relief are likely to stimulate greater efforts to mount sophisticated and generous responses to disasters in strategically important developing countries. This will build expectations among Australia's geostrategic partners about its capacities to respond significantly to humanitarian disasters in strategically significant countries.

(b) Demographic Change

There is a well established correlation between population growth rates and development. According to the UNFPA, the highest fertility and population growth rates are found in the world's poorest countries.³⁷ Other studies show that rapid fertility decline contributes significantly to lowering the incidence and severity of poverty, and that lower birth rates are strongly correlated to high and growing levels of economic development.³⁸ In the coming decades, while the population of developed regions is expected to increase only minimally, it is in the least developing countries, where population rates are still the fastest growing, that the population is projected to double from 0.84 billion in 2009 to 1.7 billion in 2050.

The coincidence of high fertility and deep poverty is a dangerous combination. Rapid population growth progressively outpaces an economy's capacity to provide gainful employment and a government's capacity to provide education, healthcare or essential infrastructure. Studies have shown that societies with abnormally high proportions of young people in their populations are more than twice as likely to suffer high rates of

³⁵ China for example was judged poorly in its response to the Boxing Day tsunami, and subsequently purpose built a hospital ship for disaster response.

³⁶ Stacey White, "Disaster Management in Asia: The Promise of Regional Architecture" in *Asia's Response to Climate Change and Natural Disasters: Implications for an Evolving Regional Architecture*, Washington D.C.: CSIS, July 2010, p. 61.

³⁷ <http://www.unfpa.org/public/home/factsheets/pid/3856>.

³⁸ Nancy Birdsall, Allen C Kelley and Steven W. Sinding, (eds), *Population Matters: demographic change, economic growth and poverty in the developing world*, Oxford University Press, 2003, p. 6.

crime and civil unrest.³⁹ Many societies have found “pressure release valves” through the temporary labour migration of their citizens to developed and emerging economies which are subject to population aging. Migrant workers are also a significant source of remittances to their home societies, and these remittances play an important development role in providing social security in poor communities. However, recent experience shows that labour migration is particularly vulnerable to sudden fluctuations in economic cycles and to rising xenophobia.

Table 1: Demographics and economic projections for Australia top 10 aid recipients in f/y 2010-11⁴⁰

Location	Population			Economic wellbeing	
	2010	2020	Average Annual Growth 2010-15	GNI per capita ⁴¹ USD	Poverty headcount % of pop ⁴²
Papua New Guinea	6.9 m	8.5 m	2.2%	1180	37.5
Indonesia	232 m	254 m	1%	2050	16.7
Solomon Islands*	0.5 m	0.62m	2.2%	910	No data
Afghanistan*	29.1m	39.5m	3.2%	310	42
Vietnam	89 m	98 m	1.0%	930	28.9
Philippines	93.6m	109 m	1.7%	2050	25.1
Timor Leste*	1.2m	1.6m	3.4%	2460	39.7
Bangladesh*	164m	185m	1.3%	580	40
Pakistan	184.7m	226m	2.1%	1000	32.6
Cambodia*	15m	17.7m	1.7%	610	30
Region					
Melanesia	8.7m	10.6m			
Least developed* countries	854m	1029m	2.2%	639	
East Asia and Pacific	2156m	2333m	0.8%	3172	
Sub-Saharan Africa	863m	1080m	2.4%	1126	
South Asia	1719m	1908m	1.4%	1082	

The effect of these demographic trends will be to reinforce the risk and vulnerability management trends in development assistance already identified. Because rapid population growth, chronic underdevelopment, and political instability are so strongly correlated, stability-focused donors are likely to begin targeting their assistance towards certain poor, crowded, fragile and disaster prone countries.⁴³ The identification of high birthrates as a development issue has led to development policy

³⁹ Richard P.Cincotta, Robert Engelman, & Daniele Anastasion, *The Security Demographic: Population and Civil Conflict after the Cold War*, Washington, D.C.: Population Action International, 2003.

⁴⁰ Sources: World Population Prospects: The 2008 Revision Population Database, United Nations Department of Economic and Social Affairs, Population Division; UNDP Human Development Report 2010; World Bank database: <http://data.worldbank.org/country>.

⁴¹ World Bank database accessed January 2011: <http://data.worldbank.org/country>; dates of estimated GNI per capita vary and represent the most recent statistics available.

⁴² World Bank database accessed January 2011: <http://data.worldbank.org/country>.

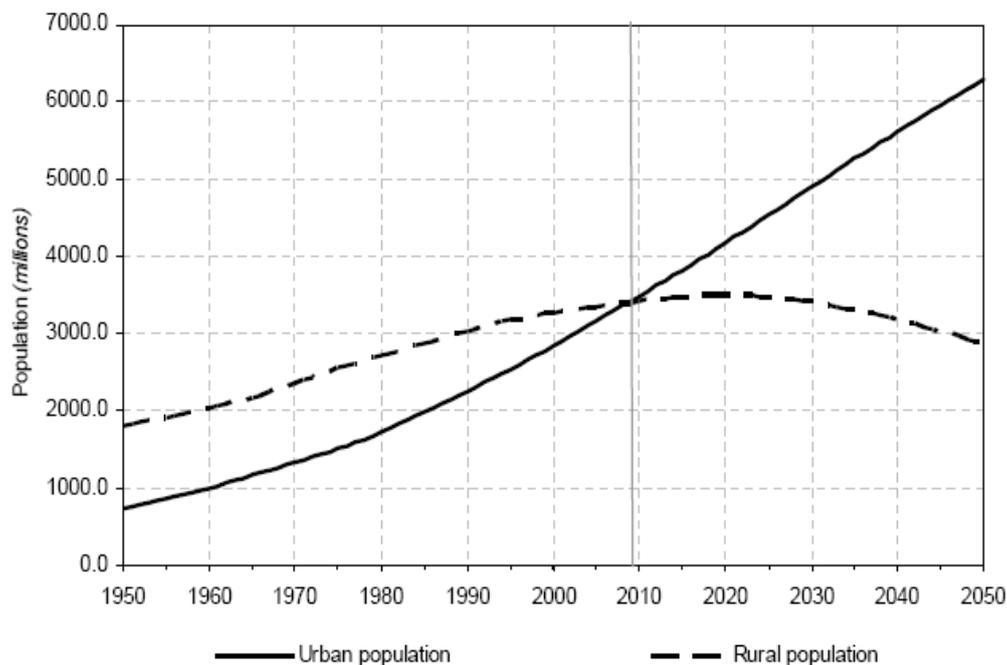
⁴³ Jack Goldstone, “The Population Bomb – the four megatrends that will change the world”, *Foreign Affairs*, Jan-Feb 2010.

responses that have proved controversial in donor societies, and this tendency is likely to persist as donor attention focuses on least developed and fragile societies.

(c) *Urbanisation*

Urbanisation is a significant trend that is likely to continue and intensify over the coming decades. In 2009 for the first time in human history, there were more people on earth living in cities than in rural areas. With over 80 percent of people in the developed world already living in cities, the predominant trend in urbanisation is in the developing world. A key development that will accelerate over the next decade will be the growth of megacities of over 10 million people – mainly concentrated in the developing world.⁴⁴

Figure 4: Urban and rural populations of the world



Source: UN, *World Urbanisation Prospects 2009*

There is a significant statistical correlation between rates of urbanisation and low rates of poverty.⁴⁵ However, UNHabitat estimated in 2007 that there were over 1 billion people living below the poverty line in cities worldwide – and that due to accelerating

⁴⁴ Megacities have a population of 10 million people or more, while metacities have more than 20 million. The UN identifies 21 such cities in 2010, including one city with more than 30 million people (Tokyo) and three with more than 20 million (Delhi, Sao Paulo and Mumbai). By 2025 the number of megacities is projected to have increased to 29, and while Tokyo remains the only city projected to have a population of more than 30 million (although Delhi is expected to get fairly close), eight cities are expected to have more than 20 million inhabitants, with the original three joined by Dhaka, Ciudad de Mexico, New York Newark, Kolkata and Shanghai. See Mark Thirlwell, “Our Consensus Future” Lowy Institute Perspectives Paper, September 2010, p. 4.

⁴⁵ United Nations, Department of Social and Economic Affairs, Population Division, “World Population Prospects, the 2008 Revision at http://esa.un.org/unpd/wpp2008/sorting_population.htm, accessed 14 January 2011.

urbanisation in the developing world, this figure could double by 2050, with the urban poor constituting one-fifth of the world's population.⁴⁶ World Bank research estimates that the incidence of poverty in urban areas in the developing world is currently at about 30 per cent, and will rise to 40 per cent in 2020 and 50 per cent in 2035.⁴⁷

The incidence of the urban poor in the developing world has become manifest in the form of sprawling slums clustered around major cities. In developing countries 43 per cent of urban populations live in slums. Slums play important social roles, providing low-cost accommodation for the lowest-paid in society, providing social networks and support for urban migrants, producing services and goods no longer provided by the formal economy, and giving access for the poorest in society to the economic dynamism of cities. However, slum dwellers are often forced to live in dangerous areas, close to noxious waste dumps, are more exposed to rapidly transmitted disease, and to higher rates of crime and social dysfunction, and are subject to exploitation and arbitrary relocation. By definition, slum dwellers have poor access to clean water, electricity, waste management, services, storm drainage, education and health services.

There are indications that conditions in the developing world's slums are likely to significantly worsen over the next decade. The dynamics driving the creation and expansion of slums – stagnating rural economies, booming urban economies (an estimated 90 per cent of all jobs worldwide will be created in urban areas over the next decade), high rural birth rates, lagging urban infrastructure – points to an expansion of slums. Rapid economic development increases the pull of people towards the cities while also driving up costs of accommodation and food, heightening the search for low-cost accommodation.⁴⁸ The expansion of slums in the developing world is a problem that most governments are unable to counter – and by definition they add to the poor that live in fragile, disaster-prone, disease-prone circumstances.

(d) Food and Water Stress

Population growth, urbanisation, changing nutritional preferences, the exhaustion of aquifers, pollution, soil depletion and changing weather patterns have begun to place stress on the supply and availability of food and water globally. Reflecting mainly surging demand, but also climatic conditions and weather events, food prices surged to historical highs in 2008. These 2008 food price levels have been surpassed in early 2011 – a strong indication that the decade ahead will see a steady tightening of the demand-supply balance for food.

⁴⁶ UNHabitat, “Istanbul + 5: Urbanisation and Globalisation”, 2007,

<http://ww2.unhabitat.org/istanbul+5/brochure.pdf>, accessed 21 January 2011.

⁴⁷ Martin Ravallion, “On the urbanization of poverty”, July 2001, at <http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan002542.pdf>, accessed 25 January 2011.

⁴⁸ UNHabitat, *The Challenge of Slums: Global Report on Human Settlements*, New York: United Nations, 2003.

Figure 5: Real and nominal food prices



Source: FAO, 2011

As the gap between the continuously growing use of water and the sustainable supply widens, the world has turned to underground water sources to respond to irrigation demands.⁴⁹ However, water tables are also rapidly falling in countries that account for half the world's population and half the global grain harvest.⁵⁰ In some countries, falling water tables and the depletion of aquifers are already reducing the grain harvest – for example, Saudi Arabia's wheat harvest dropping 61 per cent from 4.1 million tons in 1992, to 1.6 million tons in 2004.⁵¹ Although China achieved a record production of 530.8 million tons of grain in 2009, plans to produce 550 million tons in 2020 may be hampered by water shortages and loss of arable land due to climate change.⁵²

The impact of declining food and water abundance will fall disproportionately on the poor in developing countries. The sharp rise in food prices in 2008 is estimated by the FAO to have pushed over one billion people into food insecurity. Civil unrest arising partly from rising food prices toppled governments in 2008 and 2011. Panicked governments, unfortunately, have a tendency to exacerbate the food supply situation. Developed and emerging states have begun to implement policies designed to promote agricultural self-sufficiency, by imposing export controls at times of scarcity and by buying agricultural land in other countries for exclusive agricultural supply to their home markets. This has the effect of increasing other countries' perceptions of insecurity and further exacerbating the global supply-demand balance. Meanwhile, developing country governments that have hitherto controlled food and fuel prices

⁴⁹ United Nations (2009), 'Copenhagen Accord,' Framework Convention on Climate Change, 18 December, p. 100, at <http://unfccc.int/resource/docs/2009/cop15/eng/107.pdf>, accessed on 21 January, 2011.

⁵⁰ Ibid p. 100.

⁵¹ Ibid p. 102.

⁵² China Daily (2010), "Climate change 'takes toll' on grain harvest," November 5, accessed on 24 January, 2011 from: http://www.china.org.cn/environment/UN_Cancun_conference/2010-11/05/content_21278663.htm.

have found themselves trapped in a three-cornered dilemma: while the removal of price controls or subsidies will fall disproportionately on the poor, such measures are increasingly expensive as prices rise, and are increasingly distorting to programs of economic reform.

The entanglement of food and water stress with other prominent challenges in the developing world – population growth, urbanisation, fragility – means that these are issues that are likely to become more prominent in the coming decade. With the world’s population growing by about 1.2 per cent a year, by 2015 there will be 400 million more mouths to feed, and by 2020 there will be 800 million more.⁵³ The growing global attention to the problems of food and water stress will probably lead to greater investments in demand moderation and management and in supply expansion. The development challenge will be to promote the mature and sustainable growth of the agricultural sector in developing countries. Similarly, improvements in water management and production has the capacity to reduce the world’s water deficit by 2,000 -3,000 km³/year, while increasing the surplus in water rich countries by about 450-550km³/year.⁵⁴

3. Transnational Causes and Capabilities

Globalisation and technological change will increasingly facilitate a range of transnational linkages which will transmit trends and shocks between the developing and developed worlds, progressively adding a focus and strategic purpose to the delivery of development aid. Three transnational flows are likely to concentrate the minds of developed and emerging country donors over the next decade.

(a) Systemic Vulnerabilities

The growing integration of global production and finance has brought unprecedented prosperity to more of the world’s population than ever before, but at the same time has multiplied the vulnerability of societies to external shocks and expanded the likelihood that the effects of once localised calamities will be transmitted broadly. According to one calculation, a financial crisis occurred somewhere in the global economy on average once every 3-4 years during the 1980s, and once every 2 years in the two decades after 1990.⁵⁵ A recent IMF study found that each of these crises had serious effects on the world economy well beyond where the original crisis occurred, in the form of major medium-term output losses.⁵⁶ Often, government attempts to insulate their economies against such vulnerabilities (such as Asian economies’ stockpiling of foreign exchange reserves following the Asian Financial Crisis) have only further exacerbated global imbalances and added to systemic instability.

⁵³ Lester Brown, "The Great Food Crisis of 2011," *Foreign Policy* (10 January 2011), http://www.foreignpolicy.com/articles/2011/01/10/the_great_food_crisis_of_2011?page=full.

⁵⁴ M. Falkenmark, J. Rockstrom, and L. Karlberg, "Present and future water requirements for feeding humanity," *Food Security*, 1, 2009, pp. 59-69.

⁵⁵ Mark P Thirlwell, "The Return of Geoeconomics", Perspective, Lowy Institute for International Policy, September 2010, p. 30.

⁵⁶ International Monetary Fund, "What’s the Damage? Medium-Term Output Dynamics After Financial Crises" in *The World Economic Outlook: Crisis and Recovery*, Washington D.C.: IMF, 2009.

Systemic instability has the capacity to impact heavily on development outcomes. Financial crises in Mexico, Russia and East Asia during the 1990s pushed back development progress by years. Financial and food crises have regularly led to widespread social unrest and the toppling of governments in developing countries, further undermining development outcomes, at least in the short- to medium-term. The trend towards governments entering the market to try to find policy solutions to systemic instability will likely continue over the next decade, and it is highly likely that in at least some cases, this will only increase general levels of systemic fragility. While addressing systemic fragility is not likely to become part of the development agenda in the next ten years, it will play an increasingly central role in framing the development agenda.

(b) Communications and Technology

The rapid development, plunging costs, increasing power and functionality, and broad uptake of mobile phone and computing technology has been the defining trend of the early twenty-first century. Whereas once a “digital divide” fell between the developed and developing world in respect to these new technologies, the past five years has seen their rapid uptake in the developing world. Now, two-thirds of all mobile phone subscribers are in the developing world; computer access lags a long way behind mobile phone access but is growing strongly also.⁵⁷ These technologies have revolutionised humans’ abilities to communicate, organise and broaden awareness across previously insurmountable time and space barriers; as with all previous technological revolutions, they will likely reshape political, economic and social dynamics in all societies they touch over the next decade.⁵⁸

Table 2: Key global telecom indicators in 2010

	Global	Developed nations	Developing nations	Africa	Arab States	Asia & Pacific	CIS	Europe	The Americas
Mobile cellular subscriptions (millions)	5,282	1,436	3,846	333	282	2,649	364	741	880
Per 100 people	76.2%	116.1%	67.6%	41.4%	79.4%	67.8%	131.5%	120.0%	94.1%
Fixed telephone lines (millions)	1,197	506	691	13	33	549	74	249	262
Per 100 people	17.3%	40.9%	12.1%	1.6%	9.4%	14.0%	26.6%	40.3%	28.1%
Mobile broadband subscriptions (millions)	940	631	309	29	34	278	72	286	226
Per 100 people	13.6%	51.1%	5.4%	3.6%	9.7%	7.1%	25.9%	46.3%	24.2%
Fixed broadband subscriptions (millions)	555	304	251	1	8	223	24	148	145
per 100 people	8.0%	24.6%	4.4%	0.2%	2.3%	5.7%	8.7%	23.9%	15.5%
All figures are estimates									

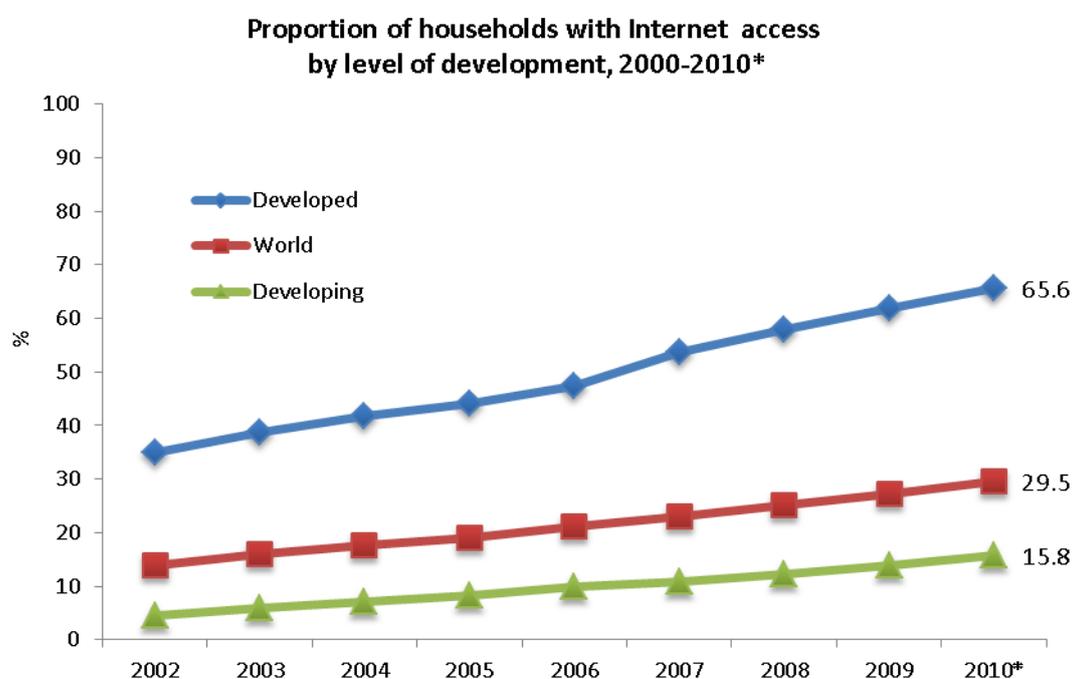
Source: International Telecommunication Union, October 2010

⁵⁷ International Telecommunication Union, *The World in 2010: Facts and Figures* at <http://www.itu.int/ITU-D/ict/material/FactsFigures2010.pdf>, accessed 18 January 2011.

⁵⁸ Clay Shirky, *Here Comes Everybody: The Power of Organizing Without Organizations*, London: Penguin Books, 2008.

The impact of new communications and computing technologies has arguably been greatest in the developing world. The rapid growth rates registered in China and India, which are responsible for lifting hundreds of millions of people out of poverty, can partly be explained by new forms of transnational investment, production and marketing enabled by the internet. The internet, satellite television, and mobile phones have also made a great proportion of the world's rural poor aware of the wealth and advantages of those in the cities and the developed world, supplying at least part of the incentives-based dynamic for much of the rapid development in emerging economies. Evidence suggests that mobile telephony has greatly increased the capacity of isolated rural communities to follow market prices and thereby maximise their returns for the sale of their produce.⁵⁹ New communications technologies and formats, from interactive satellite television to the internet, have also increased the demand for voice and accountability among people living in authoritarian societies, leading to regular outbreaks of popular protest across the developing world over the past decade.

Figure 6: Internet access



*Estimates

Source: ITU World Telecommunication /ICT Indicators database

Source: International Telecommunication Union

But new forms of transnational interconnectedness will also have negative consequences over the next decade. One under-appreciated effect is the increasing propensity to spread the contagion of panic, thereby multiplying the disruptive consequences of events that would once have been localised in their impact.⁶⁰ When

⁵⁹ Lisa Roberts and Danielle Cave, "Advancing Innovative Development and Aid Strategies in the Asia Pacific: Advancing the Millennium Development Goals", Conference Report, Lowy Institute for International Policy, July 2010.

⁶⁰ See for example the following stories: <http://www.thisislondon.co.uk/standard/article-23915674-twitter-sparks-shooting-panic-over-oxford-street-gunman.do>; <http://techcrunch.com/2009/04/26/swine->

combined with increased deregulation and trade, new communications technologies have also provided a huge boost to transnational crime, facilitating money laundering, the smuggling of drugs, people and weapons, and intellectual property theft.⁶¹ The internet has also greatly increased the power of disgruntled or malicious individuals to infiltrate and/or disrupt the vital communications infrastructure that underpins increasingly broad realms of daily life. It is through communications technologies that awareness of inequality and injustice is spread, resentment can build, and recruits to a range of causes collected and given access to dangerous ideas, methods and tactics. This spreading awareness of inequality, and the resentment it can breed, will give the development agenda a different sense of purpose and urgency over the next decade and beyond.

(c) Disease

The developing world will continue to struggle with a disproportionate incidence of familiar, debilitating diseases over the next decade: malaria, tuberculosis, HIV-AIDS, dengue fever. It also faces the challenge of resurgent diseases that were once thought to have been bested: cholera, polio, smallpox; as well as an epidemic of developed world lifestyle diseases arising from the consequences of bad diet, bad water, unsafe sex, tobacco, alcohol and physical inactivity.

Climate change will also bring with it health challenges for developing countries, which are also the most under-resourced to respond.⁶² The major health consequences of climate change are climate variability and the impact on the agriculture sector; extreme weather events; both the scarcity and excess of water; heatwaves; and changing temperatures and patterns of rainfall affecting the distribution of insect vectors. The World Health Organisation estimates that already 150,000 deaths occur annually in low-income countries due to climate change from climate-related events – crop failure and malnutrition, diarrhoeal disease, malaria and flooding.⁶³

The last decade could be described as the decade of pandemics. Heralding the start of the millennium was the mounting concern about the progress and characteristics of HIV which was increasingly being recognized as a disease with seemingly indestructible deadly tentacles reaching more and more into the world's vulnerable and poor. Global concern was galvanized to mount a major financial, medical and social campaign to combat the disease resulting in the creation of UNAIDS and the Global Fund to combat AIDS, Tuberculosis and Malaria.

The irony of pandemics is that they are both predictable and unpredictable. Predictable in the sense that there is a reasonably well-grounded and widespread expectation that a major viral pandemic will affect the world sooner than later. Unpredictable because as the Director General of WHO has said, pandemics are prone

[flu-spreads-panic-over-the-web/; http://www.thejakartaglobe.com/home/government-disaster-advisors-twitter-hacked-used-to-send-tsunami-warning/408447.](http://www.thejakartaglobe.com/home/government-disaster-advisors-twitter-hacked-used-to-send-tsunami-warning/408447)

⁶¹ United Nations Office of Drugs and Crime, *The Globalisation of Crime: A Transnational Assessment*, September 2010, at http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf, accessed 10 January 2011.

⁶² The Lancet, *Managing the health effects of climate change*, Lancet and University College London Institute for Global Health Commission, May 16, 2009, pp. 1693-1733.

⁶³ http://www.who.int/mediacentre/news/notes/2009/climate_change_20090311/en/index.html.

to deliver surprises and no two pandemics are ever the same.⁶⁴ What is important in recounting the pandemic story of the past decade is what it suggests for the next 10 years. What was common to the SARS, H5N1 and H1N1 are their zoonotic geneses. One of the most important benefits to come out of the recent series of pandemic warnings is the focus that has been put on understanding better the zoonotic linkages to human health. But perhaps the most important feature of that period is the focus that has been put on preparedness for the next big pandemic. There has been significant effort by both developed and developing countries, individually and collectively, to strengthen their capacity to respond to pandemic surprises upgrading preparedness regimes, surveillance, vaccine development and distribution, and risk communication. While the three pandemic warning bells of the 2000s eventually rang hollow, they served to scale up and fine tune preparedness for the pandemic many believe the world is on track for. As noted by WHO, the severity of disease and death caused by a pandemic virus varies greatly and cannot be forecast – preparedness for the unknown is essential. The challenge will be maintaining the focus on preparation.

4. Potential “Swing Factors”

The world in 2020 sketched out in the preceding three sections is based on the assumption that current trends will deliver a world that looks as follows.

1. Today’s developed countries (North America, Europe and Japan) will grow sluggishly but remain wealthy and powerful, although increasingly beset by aging populations and sclerotic governance;
2. Today’s big emerging economies (China, India, Vietnam, Indonesia, Brazil, Turkey) will be the dynamos of the global economy, with greater proportions of global trade, finance, innovation and education focused around them; within ten years they will form the majority of the world’s largest economies despite continuing to face internal problems of poverty, environmental degradation, lagging infrastructure and incomplete social welfare coverage.
3. Today’s least developed countries will struggle to register any development progress, weighed down by high fertility, sluggish economic growth, rapid urbanization, rampant corruption and misgovernment, collapsing ecosystems and endemic disease.
4. Globalisation and communications technology will continue to foster a diverse but powerful non-government sector which increasingly rivals states in shaping global outcomes, from planetary action on global problems to violent attacks on the status quo to advancing development outcomes.
5. Complex environmental issues and resource and food scarcity will preoccupy the international community, but these will be managed and adapted to over time.

The following six “swing factors” could decisively alter this scenario, and thereby completely alter the development picture in 2020.

⁶⁴ Margaret Chan, Director General WHO. August 10, 2010.

(a) Retreat from Globalisation

Continued and mounting instability in the global economy in combination with inexorably tightening commodity markets could accelerate existing tendencies for governments to step in to try to mandate outcomes in sectors deemed to be vital to national economic health and security. Although there has been no decisive move in this direction to date, a tit-for-tat move by some of the larger command economies could have a major impact on systemic fragility and leave other governments with little choice but to take similar defensive actions. A major offsetting factor to the actions of governments would be the existence of the internet, a medium that would allow a measure of skirting of government barriers to international commerce.

A decisive retreat from globalization would reverse or freeze progress on reducing poverty; severely curtail the emergence of the non-government sector; and significantly increase the risks of naked great power competition and even war.

(b) Collapse in China or India

Both China and India have emerged as the fast-growing heart of global economic dynamism but both countries are extremely domestically fragile as well as heavily dependent on an open and stable global economy for their continued success. Both countries have problematic relations with internal minorities. Rapid economic growth has stimulated widespread public expectation for further rapid growth which, if frustrated, could lead to widespread chaos and unrest. China faces growing public skepticism about the lack of accountability while India faces a shortfall in legitimacy over the severe inequalities in its system. Both countries struggle with corruption and government inefficiency and face looming environmental challenges which could have a major impact on growth and internal stability.

The sudden slowing or implosion of China or India would have severe implications for global growth, not to mention being likely to stimulate massive outflows of distressed people. Each occurrence would see tens and possibly hundreds of millions plunged back into poverty. Beijing and New Delhi would re-join the ranks of major recipients of development assistance, thereby reducing the availability of funds and attention for other recipients.

(c) Concerted and Decisive Action on Carbon Emission Abatement

A sudden breakthrough on alternative energy technologies and/or a decisive and binding agreement on rapid concerted carbon abatement targets could impact on the fragility and food and water stress described in sections 2(a) and 2(d). It would certainly have implications for the prospects for collaboration and the reconciliation of diverse interests in other areas of international negotiation, including in development assistance.

However, even sudden and decisive action that sharply cuts carbon emissions will not likely have a major impact on the climatic changes in train caused by the existing levels of atmospheric carbon. While the fragility and food and water stress issues may be moderated, it is unlikely they will be significantly reduced.

(d) Technology-Driven Resurgence of the Developed World

When previously the United States and Europe have been written off, they have been on the cusp of a technology-driven resurgence that has resulted in a re-opening of their power- and wealth-leads over the developing world. Studies by the RAND Corporation have speculated that the next wave of technology innovation could come in the fields of genomic biotechnology and nanotechnology; targeted diagnostics, drug delivery and tissue engineering; smart, multifunction materials; information and communications technology; or new energy technologies. RAND has also found that those societies best placed to produce and exploit such technologies are those that are currently leading the world in technological sophistication and education – in other words, today’s developed countries.⁶⁵

Such an event would rapidly restore the fortunes, dynamism and confidence of the developed world and rebalance the West’s emerging relationship with the big emerging economies (although solutions would still need to be found to rapidly aging populations). The likely result would be to restore in some measure the traditional development picture: of a small ideologically-homogeneous group of developed countries doing the major work in international development. However it is not clear whether a major resurgence of the developed world would alter the trajectory or development assistance of the major emerging economies.

(e) Western Retrenchment

Continuing economic stagnation in the United States, Europe and Japan, plus increasing social unrest and political dysfunctionality could lead to the steady retreat of international interest and activism among the traditional leaders of global affairs in favour of domestic preoccupations. The result would be an even more rapid move towards heterogeneous interests and the further erosion of institutions and norms of international behaviour. Such a world would probably see an increase in strategic competition and a stalling of globalization with significant effects on development progress.

Marked western retrenchment over the coming decade would pose big questions for Australian foreign policy generally, and its aid policy in particular. Canberra has always shaped its aid policy with reference to the policies and levels of spending of other western countries. The slow retreat of this sounding-board from the field would throw Australia’s aid policy open to influence by a much more diverse reference group of emerging economy donors, and pose much more profound questions about the balance between altruism and interest in framing Australia’s aid policy. A marked decrease in western development assistance would also see a marked retreat in the emphasis on governance reform as a necessary factor in development. Despite the emergence of new donors, western retrenchment would likely see an absolute decline in the amount of state and non-state development assistance available.

⁶⁵ Richard Silbergliitt, Philip S. Anton, David R. Howell and Anny Wong, *The Global Technology Revolution 2020: In-Depth Analyses*, Santa Monica: RAND, 2006.

(f) World War III

If unrestrained by economic interdependence, the growing strategic rivalry between Asia's rising powers could end in all-out war. Despite growing economic interdependence, which raises the costs of war, the escalating strategic competition between the United States, China, India and Japan in the Pacific and Indian Oceans could result in major conflict even if the protagonists did not intend such a result.⁶⁶ Such an eventuality could be the result of miscalculation and rising nationalism, not to mention underdeveloped nuclear doctrine among countries that have recently acquired nuclear weapons.

Great power war in the twenty-first century would have globally devastating consequences and result in a humanitarian catastrophe. It would set back development by decades across the board and destroy a large proportion of the world's infrastructure and productive capacity; if it involved a nuclear exchange it would have devastating environmental and health consequences as well. It would be unlikely that any state would be in a position to dispense development assistance for some time after the conclusion of a great power conflict.

5. Potential Implications for Future Australian Development Assistance

Australia's current approach to development assistance balances humanitarian aims with its broadly defined foreign policy priorities, by seeking to reduce poverty in line with Australia's interests. In doing so, it recognises the linkages between the social and economic circumstances in developing countries and the impact they can have on Australia's own situation. It is also strongly shaped by the developed world's strong development focus on economic development, poverty reduction and human potentiality as embodied in the Millennium Development Goals.

The currently observable trends suggest that over the next decade Australia's development aid policy will be framed by a world of development challenges quite different from those that have shaped it for the past half century. Sustained economic growth in the developing world and remarkable progress on poverty reduction will mean that the traditional development agenda – boosting economic growth, fostering effective institutions, reducing poverty and disease, all broadly across the developing world – will be increasingly confined to sub-Saharan Africa, South Asia, and parts of the South Pacific. This is not to say that other parts of the developing world will not require some ongoing development assistance. However, that support will be increasingly nuanced to respond specifically to persistent or acute development challenges which will vary according to the circumstances of the country.

Imperatives in the concentration of Australia's traditional development assistance are already apparent. Of the current top ten recipients of Australian aid, five are least developed countries, with three experiencing significantly high population growth rates. Given the high demographic growth without accompanying economic growth, it can be expected that they will continue to require substantial Australian development

⁶⁶ Malcolm Cook, Raoul Heinrichs, Rory Medcalf and Andrew Shearer, *Power and Choice: Asian Security Futures*, Sydney: Lowy Institute for International Policy, 2010.

assistance over the next decade. All five countries represent important strategic interests for Australia – two being close neighbours while Afghanistan’s recipient status is linked to Australia’s broader strategic and defence policies in Western Asia. Bangladesh and Cambodia, while not as prominent on the strategic hierarchy, are nevertheless within the region that Australia recognises as a geo-strategic priority.

In other parts of the developing world, a new agenda of development challenges will increasingly demand attention and response. Very strong trends in climate change, urbanization, and the fragility of human settlements will push development assistance policy strongly in the direction of adaptation, resilience and response, and partly away from long-term investment in the cumulative building of economic capacity and human capabilities. There will probably be an increase in investments in early warning systems, resilience infrastructures and response preparedness in the most at-risk developing countries. The cadence and scale of natural disasters, along with the tempo of geopolitical competition surrounding comparative responses to them, will affect the amount of development resources that are kept in reserve for disaster response, rather than invested in development, adaptation and resilience.

Similarly, regional economic stability, the physical consequences of climate change, disease control and migration are all issues of significant national importance because of their potential to impact on Australia. As such, the development assistance program will be expected to be a core element of Australia’s response.

Perhaps the dominant trend over the next decade and beyond will be the shifting balance of power brought about by the rise of large emerging economies and their increasing interest in shaping the world around them. This will occur whether or not the major developed economies go into decline. Already the large emerging economies are playing a significant role in development assistance, and this footprint will only grow over the coming years. Different interests as well as concerns about access to energy, resources and food will return the realm of development assistance to a focus on geopolitical competition not seen since the height of the Cold War.

There may be an opportunity for Australia and other developed donors to establish either a modus vivendi or a form of collaboration with the emerging donors. It is less likely that such collaboration will be centrally negotiated through the OECD DAC or the World Bank than sequentially and separately in different contexts among the donors on the ground. One possible scenario would be a range of different combinations of development collaboration between Australia and emerging donors and private sector donors, each shaped by the unique development requirements at hand and the different interests of the collaborating donors.

But equally likely, competition in development assistance may increase. This may necessitate a rebalancing of the imperatives of Australian aid policy much more in favour of geopolitical and national interest considerations, particularly in regions such as the South Pacific, where emerging donors will pose a challenge to Australia’s traditional role of influence. The imperative of responding to the challenge of emerging donors will probably influence the forms of collaboration among developed donors; one possible consequence may be a geographic division of responsibility, resulting in a refocusing of Australia’s development aid on Asia and the South Pacific.

National interest and security influences on aid policy will be further heightened by advances in transnational connectedness. Already Australia's traditional donor partners are tilting their development policy frameworks more explicitly in the direction of linking progress in the developing world with their own security interests. The recent United States Presidential Policy Directive on Global Development and the Quadrennial Diplomacy and Development Review make this link clearly. In Britain, which previously under Prime Ministers Blair and Brown emphasized the achievement of the MDGs as the core objective, has under the Cameron government clearly acknowledged the national interest goals of its aid program. In words that echo President Obama's directive, the UK's DfID is clear: "We believe that promoting global prosperity is not only a moral imperative but also in our national interests."

The strong likelihood that Australian development assistance will continue to play a key role in conflict reduction and post-conflict reconstruction, alongside a range of sometimes competing state and non-state providers, will see a growing linkage between the Australian government's security and development agendas. This will further tip the balance among the rationales and imperatives of Australian aid policy, even more towards more instrumental concerns. All of these pressures will further increase the imperative for whole-of-government policy-making and co-ordination of Australia's development, security and foreign policy objectives.

Appendix I

Table 1: Global Events

Period	Global Event	Impact on development aid	Australian aid ⁶⁷		Global aid ⁶⁸	
			ODA/GNI	US\$b	ODA/GNI	US\$b
1960	Collection of Aid Statistics begins		0.36% ⁶⁹	0.559 ⁷⁰	0.51%	37.34
Early 70s	First oil crisis	Global aid reaches lowest percentage of GNI since collection of statistics began	1973/74 0.4%	2.003	1973 0.27%	40.88
Late 70s /early 80s	Second oil crisis and ramifications of stagflation	Constrained public sector expenditures in developed countries > small government policies > influence on development policies	1980/81 0.37%	1.957	1980 0.35%	62.19
Early 90s	End of the Cold War	Widespread questioning about the need for aid; over next decade, aid drops to lowest point ever	2001/2 0.24%	2.362	2001 0.22%	81.47
2001	9/11 combined with emerging popular support for the Millennium Development Goals	ODA budgets enter period of resurgence;	2003/4 0.23%	2.487	2003 0.24%	90.48
2002 - 2005	Significant period of high level and popular support for aid with particular emphasis on Africa culminating in Gleneagles G8 aid commitments in 2005 and UN Leaders Summit on MDGs	11 EU members commit to 0.7 by 2015 joining 4 other members already at 0.7 or above; significant commitments to increase aid by other donors including Australia's commitment to double its aid budget by 2010	2005/6 0.28%	3.109	2005 0.32%	124.9
2007-2008	Global Financial Crisis	Commitments to aid budgets curtailed by a number of donors; only two of the 11 EU members still on target to meet their 0.7 commitment	2009/10 0.31%	3.820	2009 0.31%	123.25
2011-2020	<i>Crisis, what crisis?</i>					

Sources: http://stats.oecd.org/Index.aspx?DatasetCode=ODA_DONOR

⁶⁷ Constant 09/10 prices from Budget Statement by Minister for Foreign Affairs, May 2010.

⁶⁸ USD 2008 Constant prices.

⁶⁹ http://stats.oecd.org/Index.aspx?DatasetCode=ODA_DONOR.

⁷⁰ http://stats.oecd.org/Index.aspx?DatasetCode=ODA_DONOR.