

News release

Infrastructure investment to be a key driver of growth in emerging markets post COVID-19 crisis, *sigma* says

- Emerging markets will invest an estimated 3.9% of GDP (USD 2.2 trillion annually) in infrastructure over next 20 years
- There will be strong growth in investment in renewable energy, smart and resilient infrastructure
- Emerging Asia will invest an estimated USD 1.7 trillion annually, equal to 4.2% of GDP; China to account for 54% of emerging market spend
- Infrastructure in emerging markets represents an annual USD 920 billion investment opportunity for institutional investors, including insurers
- Infrastructure-related insurance premiums to exceed USD 50 billion over 10 years, mostly from engineering, property and energy

Zurich, 17 June 2020 – Investment in infrastructure development is set to be one of the main drivers of sustainable growth in the emerging markets after the COVID-19 crisis subsides, the latest *sigma* says. Emerging markets will invest USD 2.2 trillion in infrastructure annually over the next 20 years, equal to 3.9% of gross domestic product (GDP), according to estimates in the report. The energy sector, in particular renewable energy, smart and resilient infrastructure, and healthcare facilities are expected to attract strong investment. The *sigma* estimates that emerging market infrastructure represents an annual investment opportunity of USD 920 billion for long-term investors, including insurers. The construction and operational phases of infrastructure projects will also generate new demand for insurance solutions, with engineering, property and energy lines of business set to benefit most.

“Spending on infrastructure could be one of the ways to kickstart parts of the economy after the COVID-19 pandemic and help drive strong and sustainable growth over the next decade,” said Jerome Jean Haegeli, Group Chief Economist at Swiss Re. “Most infrastructure spending will be in emerging Asia, which we also expect to be the engine of global economic growth.”

Prior to the COVID-19 outbreak, many emerging markets had already put multi-year infrastructure projects into motion, and the associated investments are not expected to drop off to the same extent as seen in previous crisis

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periods. The pandemic has also shown the urgent need for more investment in health infrastructure in many emerging markets.

Beyond the recession shock inflicted by the COVID-19 pandemic, emerging markets are forecast to grow by around 4.4% annually over the next decade, slower than the yearly average of 5.5% in 2010-19, but much faster than the projected 1.8% growth in advanced markets. In the aftermath of the pandemic, the global economy will face headwinds from impaired supply chains and production capacities, higher unemployment, bankruptcies and higher debt burdens. And, given the already-weak resilience of many economies before the onset of the crisis, global growth will return to subdued levels only. Against this backdrop, emerging markets need to become more resilient by improving productivity and increasing investment in infrastructure, which in turn can reduce businesses' operating costs and create an enabling environment for new capital formation and output growth.

“The realities of today, including an increasingly pervasive digital technology, the clear impact of climate change and the need to build more resilient societies, will increase demand for, and shape the direction of, infrastructure development in emerging markets,” Haegeli said.

Focus on renewal and sustainable infrastructure

Based on current spending trends and economic growth forecasts, *sigma* estimates that the largest share of the estimated investment in emerging markets will be in energy infrastructure (34%), with a core focus on renewable energy. As many countries increase their efforts to reduce their greenhouse gas emissions, investment is expected to pivot toward smart and resilient infrastructure – in which data and digital technology come together to improve monitoring and managing of connected networks such as public transport, utilities and waste disposal systems, as well as facilities like power stations and grids. Building and upgrading of existing infrastructure to become more resilient to climate change impacts will also be a key area of sustainable investment.

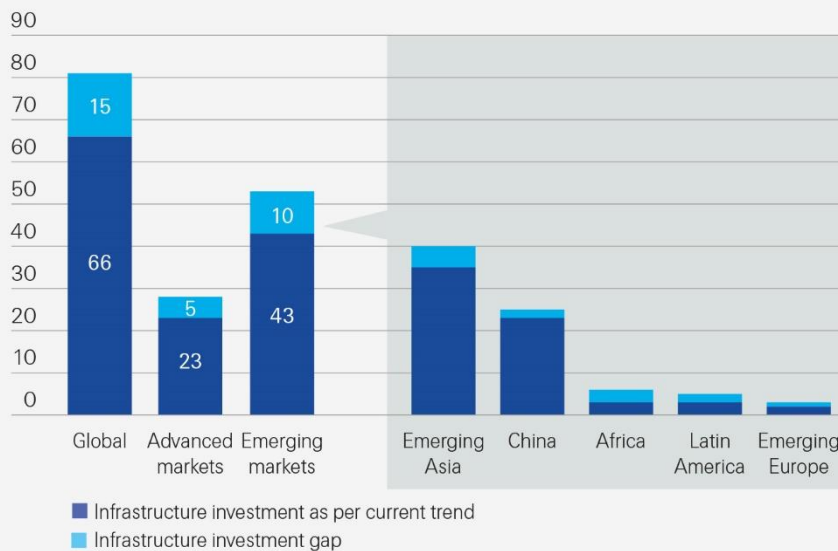
The *sigma* estimates that total infrastructure investment in emerging Asia will average USD 1.7 trillion annually over the next 20 years, or 4.2% of GDP and USD 35 trillion in total (see Figure 1).

“In the coming years, Asia will invest more in infrastructure than anywhere else in the world, with the region’s emerging economies accounting for more than a third of associated spend,” said Russell Higginbotham, Swiss Re Chief Executive Officer Reinsurance Asia. “Critically, infrastructure will enable sustainable growth by fostering improved productivity; while rising incomes and a continuing trend of urbanisation will mean that the composition of infrastructure needs will also evolve.”

China will invest an estimated USD 1.2 trillion (4.8% of GDP) each year, accounting for 35% of global investment in infrastructure and 54% of all emerging market investment in infrastructure. India will be the second largest

infrastructure investment market, accounting for around 8% of all emerging market spend. Africa will invest an estimated 4.3% of GDP in infrastructure, but the absolute levels will be low. Emerging Europe will invest 3% of GDP in infrastructure, in line with the global average, but spending in Latin America will lag at 2.3% of GDP. Figure 1 also shows that in spite of the spending, the estimated investment will not fully cover the needs of the next 20 years. The infrastructure gaps in all emerging regions together will accumulate to USD 520 billion annually. In relative terms, the gap is largest in Africa and Latin America, and smallest in emerging Asia.

Figure 1: Estimated total infrastructure investments and gap in emerging markets, 2021–2040, in USD trillion



Source: Swiss Re Institute estimates, based on data from Global Infrastructure Hub and Oxford Economics

Insurers as long-term investors...

Traditionally, emerging markets have relied mostly on public funding for their infrastructure needs. With government budgets under strain, the private sector will play a bigger role via public-private partnerships, and with finance-embedded risk transfer solutions. The benefits of private-sector participation (PPP) include innovation and efficiency gains and by using PPP, governments can outsource day-to-day operations and reallocate budget and resources.

The infrastructure sector in emerging markets presents an annual USD 920 billion opportunity for long-term investors, including global insurers, according to the *sigma*. Insurers can further support sustainable growth in emerging markets by closing the infrastructure gap in different regions. With interest rates set to remain low, infrastructure projects can deliver attractive yields to help insurers match their long-term liabilities. These projects also offer an opportunity for regional and asset class diversification, and for investment in environmentally and socially-responsible initiatives. A key differentiator for emerging markets in the next 20 years will be their ability to commit to policies that favour market-friendly frameworks to make infrastructure a standardised

and tradable asset class, as well as low tariff complexity and fiscal prudence, the *sigma* says. Markets that embrace these directives will be able to attract infrastructure (and other) investments more easily also from foreign investors, and consequently build stronger economic growth and resilience.

...and providers of USD-50-billion worth of risk transfer solutions

Insurers can also underwrite the risks inherent in the construction and operation phases of infrastructure projects. The *sigma* estimates a total premium opportunity of more than USD 50 billion over the next 10 years, based on projected levels of investment across the largest seven emerging markets (Brazil, China, India, Indonesia, Mexico, Russia, and Thailand). Among lines of business, engineering – with construction-all-risk premiums estimated to be USD 22 billion – is expected to benefit the most. In the operation phase, property premiums are estimated to reach USD 19.4 billion, while premiums from renewable energy projects will be around USD 9.7 billion.¹ There will also be increased demand for marine and liability insurance. Once again China, on course to be the world's biggest insurance market by the mid-2030s, will be where most infrastructure-related insurance business is concentrated, accounting for 60% of the premiums over the coming decade.

Notes to editors

Swiss Re

The Swiss Re Group is one of the world's leading providers of reinsurance, insurance and other forms of insurance-based risk transfer, working to make the world more resilient. It anticipates and manages risk – from natural catastrophes to climate change, from ageing populations to cybercrime. The aim of the Swiss Re Group is to enable society to thrive and progress, creating new opportunities and solutions for its clients. Headquartered in Zurich, Switzerland, where it was founded in 1863, the Swiss Re Group operates through a network of around 80 offices globally. It is organised into three Business Units, each with a distinct strategy and set of objectives contributing to the Group's overall mission.

How to order this sigma study:

The English version of the sigma 3/2020, "Power up: investing in infrastructure to drive sustainable growth in emerging markets " is available in printed format and electronically. You can download the electronic version of sigma or order printed copies on <https://www.swissre.com/institute/research/sigma/sigma-research/sigma-2020-03.html>

¹ Premium estimates are subject to change depending on pricing environment, project type and location etc.