



Why urbanisation matters for investors

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Within the next two decades, the entire US population will move into China's cities. Alright, not the US population per se. But 350 million Chinese will leave behind their rural life in a move expected to provide a massive impetus to China's urban economy.¹

China is not alone. All across the developing world, cities are acting as people magnets. The UN forecasts the urban population of Asia will grow by 1.8 billion by 2050, while Africa will see nearly one billion people join city life and 200 million from Latin America and the Caribbean will leave their rural homes behind.² All up, more than 60% of the world's population are likely to live in cities by 2030 compared with fewer than one-in-three in 1950.³

Much of the growth today stems from cities drawing economically motivated populations across the developing world. While it is often educated young adults who move from the country, the development of export-led manufacturing industries across poorer parts of Asia have created demand for low and medium-skilled labour.

Regardless of educational background, the attraction of city life lies in the financial incentives found there. Take China again. Already urban incomes are estimated to be three times those of the rural population and studies forecast that urban China will come to have disposable incomes and consumption demand twice that of Germany by 2025. Through the process of much-increased urbanisation, it is expected that, in time, more than 90% of China's GDP will be generated by its urban economy.⁴

But city infrastructure in the developing world is stressed by growing populations. Emerging countries need to extend electricity grids, water mains and transport links to support growing urban centres.

China and India are among the developing nations that have announced major stimulus plans centred on infrastructure investment.

India may be one of the fastest-growing economies in the world but its infrastructure has failed to keep pace. The Indian government is committed to raising infrastructure investment, with various studies suggesting US\$500 billion (A\$570 billion) needs to be spent to bring the country up to standard. The power and transport sectors are expected to attract around 60% of that money. With a large power supply deficit and low per-capita power consumption, it is the government's intention to increase generation capacity by 80,000 megawatts by 2012.

China is expected to experience the largest urban migration ever seen over the coming decades as up to 70% of its population moves from the country to urban areas, to take China's urban population to over one billion. This could create one of the greatest booms in mass-transit construction. Outside of the cities, a massive rail network also being built to connect the cities to rural areas. By 2012, China could be laying as much as 10,000 kilometres of new rail track each year.⁵

Redeveloping the developed world

While emerging markets must build core infrastructure from scratch, in the developed world, much of the infrastructure is in place but needs replacing. To remain competitive in a world that is increasingly influenced by the economic might of the developing world, the developed world must invest heavily in its infrastructure stock. Failure to make significant progress towards upgrading the basic infrastructure of the west could prove costly in

terms of congestion, unreliable supply lines and growing environmental issues, not to mention the implications for standards of living and quality of life.

It's little wonder then that the global recession led to plans for massive government stimulus directed at rebuilding crumbling infrastructure. The US committed around a third of its US\$825 billion stimulus package to new infrastructure projects, including US\$150 billion over 10 years to clean energies. More than a year later, much of the investment has still to be made and so expect there to be ample opportunity for private industry to get involve through public-private finance initiatives.

Indeed, the private sector can play a significant role in many infrastructure projects. Since the 1980s, more than US\$1 trillion of assets have been privatised in OECD countries.⁶ It is likely that further assets will transfer into private hands as emerging countries look to finance infrastructure. Already, the private sector supplies 20% to 25 of infrastructure financing in the developing world.⁷

Many private companies will be well-placed to benefit from an infrastructure boom, from building, managing and/c owning the new assets. Developed-market capital-goods providers and contractors are tapping into the opportuni to bring their expertise to the developing world (while enjoying demand to replace infrastructure in developed markets). The surge in new business that they are seeing from emerging markets is likely to be sustained for mar more years.

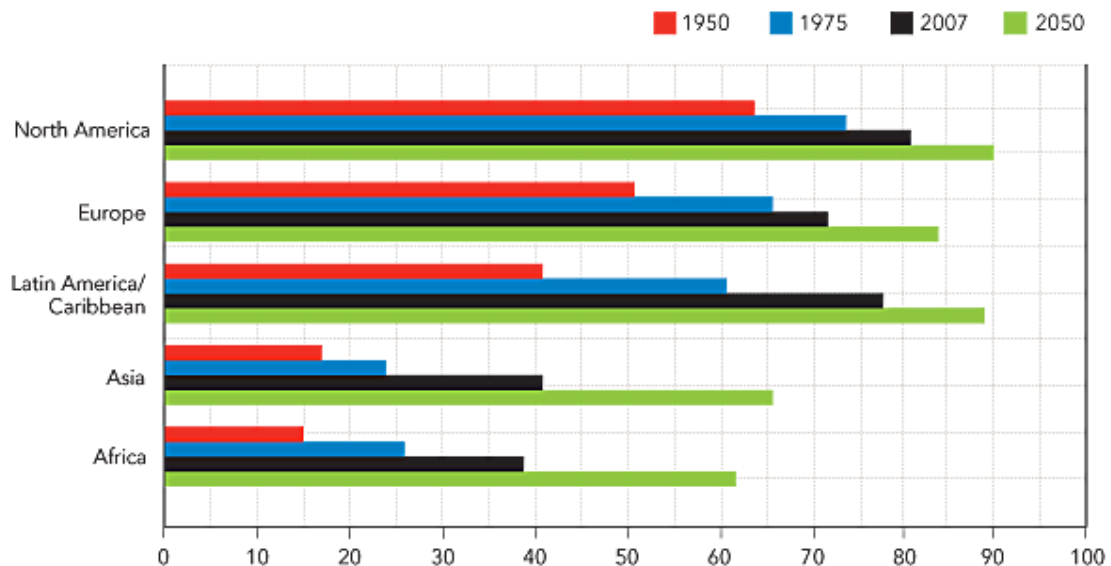
With decades of experience in developing high-speed trains, the French rail sector is thriving, for instance. Faiveley makes high-tech train parts such as couplings, air-conditioning systems and doors, and is seeing increased trade with China.

New home-grown champions are forming in the emerging markets too. Emerging-market private firms are diversifying into infrastructure provision or, in some cases, ownership. These companies, with their local connections and understanding, are meaningful competitors and/or partners to the developed market players.

Rural Electrification is an Indian government-owned company that aims to finance and promote rural electrificatio projects all over the country. As a financier, its asset growth is expected to track the growth in the power sector.

These examples show how an investment in the urban age is an investment in the majority of the world's people and in the growth of the world economy. It's perhaps a 21st century investment opportunity like no other.

Percentage of population living in urban areas



UN, 2008

¹ "Preparing for China's urban billion", McKinsey Global Institute, March 2009

² "World Urbanisation Prospects", United Nations, 2008

³ "Rethinking Urbanisation", Michaels, Rauch, Redding, January 2009

⁴ McKinsey. Op cit

⁵ Credit Suisse, March 2010

⁶ Fidelity International estimate. April 2010

⁷ Goldman Sachs, April 2008

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