

7th Asia Construct Conference

SUMMARY

1. Asian economies and construction markets

(1) Macroeconomic conditions

The Asian economy had been steadily recovering in line with its increased export competitiveness and a strong American economy until 2000, but that growth stagnated once the American economy began to slow down in 2001. Since 2002, the economy has generally been recovering as domestic demand driven by private consumption has been progressing steadily and exports have recovered. However, there is still a certain over-reliance across Asia on trading with advanced countries - including America - and changes in the American market may pose significant risks for the future economic growth of Asia as well.

Table 1 Trends and outlook of macroeconomy by country

	Real GDP growth rate				
	1998	1999	2000	2001	2002
China	7.8	7.1	8	7.3	7
China, Hong Kong	-5	3.4	10.2	0.6	1.5
Taiwan	4.6	5.4	5.9	-2.2	2.3
India	5	9	4.4	5.5	6.5
Indonesia	-13.1	0.8	4.9	3.3	3.5
Japan	-0.8	1.9	1.7	-1.3	0
Korea	-6.7	10.9	9.3	3	5
Malaysia	-7.4	6.1	8.3	0.4	3
Phillipines	-0.6	3.4	4.4	3.2	4
Singapore	-0.1	6.9	10.3	-2	3.2
Sri Lanka	4.7	4.3	6	-1.4	-
Vietnam	5.8	4.8	5.5	-	-
Thailand	-10.5	4.4	4.6	1.8	2.7

Notes: 1. Data from the 8th ASIACONSTRUCT Conference (November 2002), the Cabinet Office (data on overseas economy; September 2002) and RICE ("Forecast of Construction and Economy", October 2002)

2. Thailand and Taiwan are not members of ASIACONSTRUCT. Their figures have been included to get an overall picture of the Asian Market. Australia, a member of ASIACONSTRUCT, did not

participate in the conference and data was not available.

(2) Construction investment in Asian nations in 2001

The total construction investment within Asian countries (which in this document refers to 12 countries and one region; namely, Japan, China, Hong Kong, Taiwan, India, Indonesia, Korea, Malaysia, The Philippines, Singapore, Sri Lanka, Vietnam, and Thailand,) during 2001 was about \$959.2 billion (equivalent to about ¥116,600 billion using the average exchange rate for 2001; most recent data from 2000 is adopted for Hong Kong, Malaysia, The Philippines, Taiwan, and Thailand, while latest data for 1999 used are China, and for 1998 in the cases of Indonesia and Vietnam. For Malaysia, the value of construction orders placed is used as an alternative to the construction investment value), which represents one of the world's largest construction markets along with America and the Western Europe regions. Categorical descriptions are all but insufficient based on the data submitted to the conference, but it is fair to say that construction demand generally recovered following the Asian currency crisis that lasted until 2000, but a depression was forecast in 2001 with the general slowdown of the global economy, and it is assumed that the entire Asian market has remained broadly static or reduced.

However, in terms of a long-range analysis, it is expected that foreign companies, such as the Japanese, will continue to speed up the transferal of their operational production and sales bases, etc. to other areas of Asia in line with the high need for potential social infrastructure development, cheaper labor and market expansion, so it can be said that the scale and standard of construction investment may increase in the near future.

Under such circumstances, China should be mentioned as one country for which significant growth is expected. The following are included in the 10th five-year plan that runs from 2001.

- 1) Structure of rational city, town, and village system
- 2) Improvement of urban environment
- 3) Improvement of residents' housing standards
- 4) Promotion of developing cities in the west

In relation to this, urban infrastructural development, such as water utilization and control facilities (i.e. dams and floodwall, etc. for Chang Jiang and Huang He), roads (i.e. construction of eight new routes in the west), railway networks (i.e. high-speed line between Beijing and Shanghai), ports, harbors, and airports, and various other projects, such as urban infrastructure and upgrading housing are all planned. New construction demand related to the hosting of international events, such as the Beijing Olympics in 2008 and Shanghai Expo in 2010 is also expected. Following its admission to the WTO in December 2001, it is forecast that the number of opportunities for foreign companies to become involved in construction projects in China will increase faster than ever.

In practice, in line with its accession to the WTO, 'regulations governing foreign invested construction companies' were enforced in December 2002 by bringing forward a three-year buffer,

and the establishment of 100% foreign construction companies was duly authorized. In line with this, however, on October 1st, 2003, the direct order receipt system used by Japanese companies in foreign countries will be abolished, so some overseas construction companies are concerned that in practice operations will be more difficult than before as the organizational handling of overseas companies will be a big issue. It is thought that foreign construction companies - including the Japanese - will continuously consider breaking into the Chinese construction market bearing in mind the actions of the Chinese government on the issue.

Table 2 Construction investment in 2001 by country

Country	GDP in 2001 (current price, US\$ 100 million)	Construction Investment (US\$ 100 million)	Constructi on GDP Share(%)	Population (thousand)	Construction Investment per Capita(US\$)
China	11,590	2,260	19.5	1,253,595	180
China, Hong Kong	1,621	147	9.1	6,760	2,175
Taiwan	2,812	327	11.6	22,130	1,478
India	4,458	622	14	1,037,000	60
Indonesia	1,453	126	8.7	204,400	62
Japan	41,208	4,970	12.1	127,120	3,910
Korea	4,110	673	16.4	47,342	1,422
Malaysia	880	104	11.8	23,300	446
Phillipines	714	63	8.8	78,420	80
Singapore	856	83	9.7	3,319	2,501
Sri Lanka	157	16	10.2	18,726	85
Vietnam	329	40	12.2	76,900	52
Thailand	1,148	161	14	60,246	267
Total	71,336	9,592	13.4	2,959,261	324
except Japan	30,128	4,622	15.3	2,832,141	163

Source: Data for the 5th ~ 8th Asia Construct Conferences (November 2002), ENR data (December 2000)

Notes)

1. For the construction investment values, the most recent data is adopted; being 2000 for Hong Kong, Malaysia, Philippine, Taiwan and Thailand; 1999 for China; and 1998 for Indonesia and Vietnam.

For Malaysia, the value of construction orders placed is adopted as an alternative to the construction investment value.

2. County reports

Australia

In terms of the future construction market, it is expected that non-housing construction and civil engineering-related businesses will expand significantly. It is thought that housing construction will also grow steadily. In the last five years, the construction industry in Australia has continuously and significantly grown. This is because the house-buying sector has expanded, Australian economic growth has been steady since the Asian economic crisis, and the number who consider that the housing construction industry in Australia represents a safe investment has been increasing. Investment in Australia from Asian countries, such as Hong Kong and Singapore is focused on new domestic houses and residential areas.

There is only one field in which investment has currently weakened, which is investment in office space. This is currently most important change affecting the construction industry in Australia. Recently, commercial space and offices have been converted to residential properties in Australia. In line with this change, so-called general constructors have also become involved in construction of residential areas recently.

The degree of investment in the construction industry in Australia from Germany has recently risen. Currently, 50% of the largest general constructor in Australia is German financed. The reason for Germany to invest in Australia is that it is considering moving into the construction market across the entire South East Asian region using Australia as a stepping-stone by investing in Australian companies that are currently very powerful in South East Asia.

In conclusion, it is considered that the construction industry in Australia will be very effective and powerful in the near future. In this case, housing and social infrastructure will form the two main pillars, and commercial office space may not be such a significant driving force. The approach adopted by constructors has changed significantly over the last few years, and they have become much more active toward business, for example, establishing partnerships with the public and private sectors together with the government, and increasing the number of employees in the research development field as well.

China

Within the last several years, central and regional government organizations, which are in charge of the construction industry in China, implemented consecutive reforms, such as laws and regulations concerning construction and rules for the jurisdictional departments have been announced in China, resulting in the control structure for the construction industry being improved. In 2001, China became a member of the WTO, and it is expected that the construction market in China will become more open to up to the world, especially as it is forecast that the construction industry in China is about to enter a new level of growth.

The nominal GDP for the first half of 2002 is 7.8% up on the same term of the previous year. It is

forecast that a 7% economic growth rate will be maintained until 2005. Furthermore, it is forecast that the real gross national product for 2010 calculated on the basis of year 2000 prices will be 12.5 trillion yuan, equating to a per capita gross domestic product of 9,400 yuan.

The amount of added value by the construction industry between 1998 and 2001 has been an average annual increase of 7.29%. The annual average growth rate for the total output across the construction industry is 11.64%, which outpaces even the Chinese GDP growth rate for the same term. The share of the added value amount for the construction industry out of the GDP has been steady at between 6.6% and 6.7%, and holds a dominant position within the national economy and main industry sectors.

• Four visions for the construction industry for the next five years are as follows.

- 1) The scale of investment in fixed assets across the entire society will expand continuously.
- 2) The pace of urbanization in China will continuously speed up and the scale of constructing infrastructural facilities and houses in urban areas will continue to expand.
- 3) Implementation of a grand development strategy for the west will provide opportunities for new development to the construction industry.
- 4) New membership of the WTO will afford new potential for the development of the construction industry.

Hong Kong

Following the financial crisis in 1997, the whole of the Asian economy went into decline, and after the terrorist acts of September 2001, the Hong Kong economy has been hard hit. Currently, the unemployment rate is over 7%. Characteristics of the Hong Kong economy are the mismatch between employment and the increase of demand to services with highly added. The highest deflation was recorded over the last four years, and the consumer price index has also been falling. In terms of the expenditure of the construction industry in Asian countries, it was ranked fourth after Japan, Korea, and Singapore in 1999. The share of construction-related expenditure out of the GDP in 2000 is about 5.3%. In terms of breakdown for the construction industry, 63% involves construction, 22% for civil engineering, and 15% for others.

Construction companies in Hong Kong are mainly involved in housing construction. Almost all infrastructural development and large-scale projects are carried out by foreign construction companies (including some based in mainland China). Foreign and domestic companies are treated equally in terms of business involvement, and foreign companies are involved in Hong Kong government projects as well.

While the GDP growth rate has struggled to grow and unemployment has been climbing as just described, the construction industry is currently suffering badly. Bid prices have fallen significantly and at the same time, competition has become tougher. Policies to stimulate the market are currently under consideration, but there are few bright factors for housing, such as land and house prices, and a reduction in the number of houses supplied, and no prospect of increasing the status

for real estate trading either. The government focuses on infrastructural development projects in its 2002/3 budget. Currently, about \$400 billion over 1,600 projects is planned, with completion due within the next nine years. Hong Kong is now closely tied to mainland China for such projects and its economic growth. It is thought that Hong Kong will be involved in the infrastructural development of mainland China, as evidenced by a large-scale bridge and railway project centered on Guangdong.

Japan

After rebounding from negative growth in fiscal 1998 to achieve positive real growth of 1.4% in fiscal 1999 and 1.7% in fiscal 2000, it appeared that the Japanese economy was on the path to recovery. In fiscal 2001, however, negative growth, - 1.7%, was recorded for the first time in three years. In fiscal 2002, although projections of recovery may be possible in some sectors, the overall economic situation seems to be remaining fairly flat.

The real gross domestic product (GDP) for the January to March period of 2002 was 1.4% over the previous period. Exports have increased because of the recovery of the US and Asian economies from the IT recession and the terrorist attacks of September 11, 2001, and individual consumption, which accounts for about 60% of GDP, increased for the second consecutive quarter, rising 1.6% over the previous period. Against the backdrop of a declining desire to invest among businesses, however, capital investment fell by 3.2% from the previous period, and residential investment fell by 2.3%, the second consecutive quarter of decline for both types of investment.

In fiscal 2001, Japan's GDP was ¥497.2 trillion in nominal terms, causing the real economic growth rate to fall to - 1.7%, the first negative growth rate in three years and the largest negative growth rate since fiscal 1980. This is a result of the downward pressure on private demand caused by the country's bad debt problems, excessive debt, tight employment conditions, and uncertainty over the sustainability of the nation's fiscal and social security systems.

Due to active fiscal investment and large tax reductions implemented as part of the government's economic policy, however, and to reduced tax collections caused by the recession, the national government's outstanding debt as of the end of fiscal 2001 was ¥607.3 trillion, exceeding the past record high of ¥600 trillion. This figure far exceeds Japan's GDP (nominal ¥497 trillion in fiscal 2001). Over the mid- to long-term, this enormous amount of outstanding debt is expected to cause economic distortions, thus making the task of fiscal policy reform, along with economic recovery, a major challenge for the Japanese economy.

Construction investment in Japan has continued to decline since fiscal 1997. It is estimated to hit ¥56.3 trillion for fiscal 2002, having fallen all the way to only 70% of its 1992 peak. It is expected to be quite some time before economic recovery begins in earnest and before that movement is then reflected in the private construction market. With a decline in public works projects, construction investment will also inevitably decline over the next five years. Even over the mid- to long term,

negative factors such as fiscal stringency and the aging and shrinking of the population will make it impossible to avoid further contraction.

Though private construction investment in the domestic economy has been sluggish since the collapse of the bubble economy, public construction investment has remained at fairly high levels. This is because public works projects were actively promoted in successive economic policies enacted to achieve economic recovery. Since public works projects thus propped up construction investment, which had shrunk as a result of major decreases in private construction, a rapid decline in overall construction investment was averted.

However, as a result of ongoing dynamic fiscal investment over several years in an environment where the economic slowdown had produced a lack of financial resources, fiscal conditions drastically worsened. Local governments especially found themselves in a difficult spot, and though the national government had been promoting investment in public works projects to help improve the economic climate, it eventually became unable to follow through on these projects. Actually, the number of independent local projects implemented by local governments with their own funds continued to decrease over several years, and public projects funded by the national government reached their limit. It has become difficult to rely on national-government finances to sustain construction investment.

In fiscal 2001, there were serious declines in all three sectors of construction investment. Government construction investment fell for the third consecutive year by a nominal 9.5%, and private residential investment likewise fell by 8.8%, due to a worsening of the employment and income situations. Private non-residential construction investment also fell, dropping 12.2% due to the deteriorating investment environment. Overall construction investment fell by a nominal 9.2% from the previous fiscal year.

In fiscal 2002, overall construction investment fell by a nominal 6.8% over the previous year, sinking under the ¥60 trillion mark for the first time in 16 years to settle at ¥56.3 trillion. In government construction investment, there was a 10.7% decline in public works project expenditures in the initial budget, and without a doubt there was a noticeably large decline in independent local projects. Government construction investment overall fell by 9.4% (nominal terms), about the same level of decline as last year. Private residential investments were supported by tax reductions on new home loans, but because of the time it takes to change the consumer mentality, they still fell for the third consecutive year, by 6.6% (nominal terms). There is little good to add in the areas of general building and civil engineering, as private non-residential construction investment continued to decline, falling 2.0%.

Forecasts indicate that in fiscal 2003, overall construction investment will fall by a nominal 3.9% from the previous fiscal year, hitting ¥54.2 trillion. Government construction investment will fall by a nominal 6.9% from the previous year since, with a stable budget and no additional measures in the revised budget, there is nothing to carry forward from the revised budget. Private residential investment is expected to bottom out in some sectors, such as owned houses and condominiums,

but this will not amount to a full-blown recovery, as investment will continue to decline, falling 1.4%. The declining trend in private non-residential construction investment will also continue, as forecasts indicate that it will fall by 1.3%.

Korea

Since 1997, the nominal Korean GDP has been gradually increasing, with GDP in 2001 about US\$ 422.2 billion, so after the financial crisis in 1997, it has rapidly increased from US\$ 317.7 billion. This is the result of efforts made through structural changes. In 1998, real GDP growth stood at -6.7%. By contrast, the growth rate was 10.9% in 1999, 9.3% in 2000, and 3.0% in 2001. An economic growth rate of 6.3% is expected for 2002.

The status of the construction market has totally changed since 1998. The increase in construction investment (in real terms) was 2.3% in 1997. Since 1989, growth had been recorded for eight years, but stopped after the Asian currency crisis in 1998, when -10.23% was recorded. It recovered slightly (0.9%) in 1999, but this was mainly because the government adopted a recovery action plan. In 2000, it fell again (-4.1%), but by 2001, it had recovered to 5.4%, and 6.7% growth is seen in the first half of 2002.

The construction industry in Korea is a traditional industry in the same way as in other Asian countries, but it is currently in a tough state. Since the economic crisis in 1997, the economy has recovered slightly, but the status in 2005 or 2010 is impossible to forecast, and it cannot currently be imagined that the rate of investment in the construction industry will increase significantly in the near future.

Singapore

The real economic growth rate in Singapore in 1990 was about 10%, but since the Asian currency crisis in 1997, it has declined, falling to nearly zero growth in 1998. In order to recover from such status, the government implemented cost reductions for public organizations and increased corporate taxes. As a result, the Singaporean economy slowly shifted into positive growth towards 2000. However, in 2001, the economy contracted by 2% due to the effects of the September 11 terrorism in America. It had been forecast that the economic growth rate for 2002 would be 3% ~ 4%, but that may have to be reduced by about 2% due to the terrorism in Bali just before this conference.

The status of the construction industry in Singapore had been quite good from the early Nineties to 1995, and high growth was recorded, but the size of the construction industry was reduced due to an economic slump from 1996 to 1999. From 1999 to 2000, signs of new recovery were seen in line with the economic recovery. However, since 2001, the economy has been degraded and stagnation has restarted, resulting in a significant decrease in demand for the construction industry.

When the contribution ratio of the construction industry out of the GDP over the last 20 years is analyzed, in the early Eighties when the volume of public projects, such as involving infrastructural development, was enormous, being consistently over 30% of GDP, but as a result of the reduction in construction demand across the whole of Southeast Asia from 1991 to 1995, its proportion of the GDP fell to around 7% in that period. Thereafter, it gradually recovered, and this tendency continued until 1998 following the financial crisis in Asia. Since then, it has been broadly flat or declining. It is estimated that this trend will continue for another five or ten years, and no optimism is warranted for the construction market in the near future.

Private construction demand for 2001 was 6.2 billion Singapore dollars, about half of which is for housing construction. Other industrial buildings account for 35%. The public sector represented 7.4 billion Singapore dollars, out of which housing construction fell significantly to about 13% due to excess housing construction to date, so the entire construction industry has suffered substantial damage. In 2002, the private sector fell to 5.2 billion Singapore dollars, but the government sector increased to 9.4 billion Singapore dollars based on an increase in the number of civil engineering infrastructural projects, so it is expected that overall demand will increase. There are few construction plans for new public housing, but the Singaporean government tries to upgrade existing housing by refurbishing it to guarantee that real-estate values are not degraded for its citizens.

Sri Lanka

The real economic growth rate for 2001 was -1.4% which is the worst economic growth rate since the founding of the nation of Sri Lanka in 1948. This is because the global economic depression caused export stagnation in the manufacturing industry in Sri Lanka, a sudden rise in food prices in Sri Lanka due to an extended drought since 2000 in the country, and the lack of domestic political stability, as evidenced by civil strife and terrorism. It is thought that the economy will recover slightly due to an increase in investment and employment opportunities and a fall in the inflation rate in 2002.

The rate of increase in production output in the construction industry for fiscal 2001 was 2.5%, while its share of the GDP was 7.26%. Even though the growth rate for the construction sector has fallen, it is the only sector to achieve positive growth out of all their industries. However, it is thought that awareness of the importance of the construction industry and development work in the country has not increased much. Areas requiring future improvement can be described as the small business volume and that foreign construction companies cannot operate in the country.

Possible measures for future development of the construction industry are as follows:

- 1) Official adoption and promotion of domestic development plan
- 2) Establishment of a construction industry authority and agency
- 3) Adoption of standardized construction-related documents
- 4) Adoption of appropriate financial mechanisms to avoid delays in payment to service providers

- 5) Establishment of material storage to cope with the urgent demand for construction materials
- 6) Establishment of a research and development fund, and construction of technology database
- 7) Implementation of regulations for foreign construction companies and consultants
- 8) Regular communication on contract procedures between stakeholders
- 9) Establishment of accumulated reserve fund construction assurance and aid for banks and construction companies
- 10) Training workers in the construction industry and revision of their salary conditions