

# 11th Asia Construct Conference

## SUMMARY

11 the Asiaconstruct Conference was held from September 16 to 17, 2005 in Bali, Indonesia.

### 1. Macroeconomy of Asia/Oceania

(Sustained Recovery, but slight Slow Down)

Asian economy in the year of 2004 has done well. Eastern Asian nations have achieved high rate of growth. Economy of some countries in the latter half of 2004 has slowed down slightly due to a price rise of crude oil and supply and demand adjustment of IT sector. China continues to grow at a high rate and capital asset investment continues to expand. India, Indonesia, Malaysia and Thailand have not finished shifting the rise of crude oil price onto prices of gasoline, etc. in their countries. This measure prevents inflation, but it may bring about financial burden in the future. In terms of trade value, China continues to export more and many of other countries decrease their export values.

The growth rate in the year of 2005 generally depends on IT industry recovery, economic trend of the US and China, but in most countries it is forecast that the growth rate will be slowed down due to the rise of crude oil price.

Australia and New Zealand continue to grow at a relatively high rate among developed countries in late years. Especially, Australia entered into FTA (Free Trade Agreement) with the US in January 2005 following the FTAs with Thailand and Singapore in order to export mainly its abundant mineral resources and agricultural products. Australia proactively calls on Japan and other prime trade partners to enter into FTA. The country tries to continue the growth through trade. The country accepts immigrants over 200,000 every year mainly from Asian countries. 200,000 is equivalent to 1% of the total population of the country and it also seems to affect the growth rate.

**Graph 1 Annual growth rates in % (current value of 2000)**

	2000	2001	2002	2003	2004	2005	2006
China	8.4	8.3	9.1	10.0	10.1	9.9	8.2
Hong Kong	10.2	0.5	1.8	3.2	8.6	7.3	4.5
Taiwan	5.8	-2.2	4.2	3.4	6.1	4.1	4.3
India	4.4	5.8	3.8	8.5	7.5	8.4	6.3
Indonesia	4.9	3.8	4.4	4.9	4.9	5.6	5.8
Japan	2.8	-0.8	1.1	2.3	1.7	3.2	3.1
Korea	8.5	3.8	7.0	3.1	4.6	4.0	5.0
Malaysia	8.9	0.3	4.4	5.5	7.2	5.2	6.0
Philippines	6.0	1.8	4.4	4.9	6.2	5.0	4.8
Singapore	10.0	-2.3	4.0	2.9	8.7	6.4	4.5
Sri Lanka	6.0	-1.5	4.0	6.0	5.4	5.3	6.0
Vietnam	6.8	6.9	7.1	7.3	7.7	7.5	7.0
Thailand	4.8	2.2	5.3	7.0	6.2	4.5	5.0
Australia	3.4	2.4	3.9	3.3	3.2	2.7	3.2
New Zealand	3.5	2.6	4.7	3.4	4.8	2.5	2.5

Source : 11<sup>th</sup> Asiacostruct Conference (2005.9) Overseas Economic Data (Cabinet Office of the Japanese Government,2005.12) Outlook of Construction Economy (Research Institute of Construction and Economy, 2005.10)

Notes : 1. In case of growth rates from Asianconstruct Conference differ from those of Cabinet Office data, Cabinet Office data are adopted.

2. Growth rates in 2005 and 2006 are from IMF"World Economic Outlook Update" (2005.4 and 9) .

## 2. Construction Markets of Asia/Oceania

(China has been the driving force behind the construction investment in the region)

The total amount of construction investment of Asiaconstruct countries in the year of 2004 was 1,198.8 billion US dollars (equivalent to 128.7 trillion yen using average rate in 2004) and it is equal to 16.5% of the total GDP (Gross Domestic Product) amount (except Japan). This level is raised by Chinese construction investment (24.4% of its GDP). This trend is likely to continue for the time being, and the Chinese construction investment may exceed that of Japanese some day. Compared with China, investment climate of India excels in transparency of legal system, IT industry and English language. In order to accelerate the investment into India, social system reform should be done.

There are some countries like Indonesia, which is said that under-investment of infrastructure hampers the economic growth. In terms of restricted financial situation, PPP (Public Private Partnership) gains attention. Many countries suffer from a lack of domestic

private money and give preferential treatment to foreign capitals. So the competition for foreign direct investment between countries becomes keen. To obtain foreign direct investment, legislation which guarantees business activity and excellent investment climate are required. It brings about momentum of the structural reform according to the condition of the country.

Australia increases its population due to immigrants and needs infrastructure building. The country undertakes public works through many PPP projects. Especially the country builds many motorways and public transportation facilities through PPP. Construction investment per capita of Australia is second to that of Japan.

**Graph 2 Construction Investment in 2004**

Country Name	2004 Nominal GDP in billion US\$	Construction Investment in billion US\$	% of Construction Investment to GDP	Population in thousand	Construction Investment per capita in US\$
China	1,653.7	404.1	24.4	1,299,880	311
Hong Kong	165.7	7.4	4.5	6,896	1,071
Taiwan	305.4	32.7	10.7	22,605	1,448
India	661.0	94.5	14.3	1,037,000	91
Indonesia	257.6	4.0	1.5	216,415	18
Japan	4,672.8	487.8	10.4	127,655	3,822
Korea	680.1	115.5	17.0	48,082	2,401
Malaysia	118.3	10.8	9.1	24,530	440
Philippines	86.1	5.0	5.8	82,664	61
Singapore	106.8	5.9	5.6	4,185	1,421
Sri Lanka	17.8	2.0	11.3	19,460	103
Vietnam	39.0	4.0	10.2	80,902	49
Thailand	163.5	16.1	9.8	63,350	254
Total	8,927.8	1,189.8	13.3	3,033,624	392
Except Japan	4,255.0	702.0	16.5	2,905,969	242
Australia	635.8	62.2	9.8	20,330	3,058
New Zeland	99.1	7.1	7.1	4,093	1,729

Source : 11<sup>th</sup> Asiacostruct Conference (2005.9) Overseas Economic Data (Cabinet Office of the Japanese Government,2005.12) JETRO basic information by country Bureau of Statistics of PROC

Notes : 1. Construction Investment figures for China is 2004, Philipines, Taiwan and Thailand are 2000, Vietnam is 1998In case of growth rates from Asianconstruct Conference differ from those of Cabinet Office data, Cabinet Office data are adopted.

2. Construction amount of orders received is used as Construction Investment in Malaysia.

## 2. Summary of each country report (according to the order of the presentations)

※Hereinafter, growth rate and construction investment figures are current values

### Australia

#### 【Macro Economy】

Australian economy is in fairly good condition, and this state is forecast to continue for some time. GDP growth rate in FY (fiscal year) 2004 is forecast 2.0% and from FY 2005 is forecast to continue to be in the 3.0% range.

Forecasts	2004-05#	2005-06#	2006-07#	2007-08#	2008-09#
Real GDP growth(%)	2	3	3.5	3.5	3.25
Changes in consumer price index, %	2.5	2.75	2.5	2.5	2.5
Unemployment Rate	5.0	5.0	--	--	--
Labour force growthrate (%)	2.75	1.75	1.5	1.5	1.25

Steep rise of asset price seems to pause for a while and is forecast to make a soft landing. FTA negotiations with mainly Asian countries have been pursued proactively. Australia has pursued to set up a solid position in a global free trade system.

Bright prospects are forecast to continue based on low interest rates and low inflation rate. However stability of the world economy and exchange rate of foreign currency is indispensable to this forecast growth rate.

#### 【Construction Market】

Australia is composed of 6 states and 2 territories (Australian Capital Territory and Northern Territory). Among them, the States of New South Wales, Victoria and Queensland are larger in construction market. The number of firms which engages in construction works is 194 thousands. Of which, 98.8% are the firms with the number of employees are less than 20. 56% of the total revenue is generated by 36 thousands general contractors.

Residential	Value of Work done (Original)	
	Value (m)	% Change
2002-03	34,339	16.4
2003-04	36,359	6.0
2004-05	36,027	-0.9
Non- Residential		
2002-03	16,223	11.2
2003-04	17,215	6.1
2004-05	17,943	4.2
Total Building		
2002-03	50,562	14.7
2003-04	53,573	6.0
2004-05	53,970	0.7
Engineering *		
2002-03	25,493	20.2
2003-04	27,409	7.5
2004-05	30,578	11.6

Reference Year 2003-04  
 \*Value of work commenced only includes private sector

In FY 2004 construction investment, residential is decreased by 0.9%, non-residential building is increased by 4.2%, engineering (civil works for infrastructure) is increased by 11.6%, the total figure is increased by 4.4% compared with FY2003. It is said that construction market remains strong.

## 【Construction Industry】

In FY 2004, 1,363 million A\$ of Federal budget were spent on construction industry matters, such as application of new laws, structural and business practice reforms of construction industry and establishing of the Australian Building and Construction Committee and Bureau of Occupational Safety and Committee, etc.

However there are some criticisms that the spending has fallen flat. So continuing structural and business practice reforms are required, especially new contract system and risk sharing system should be introduced.

## Hong Kong

### 【Macro Economy】

Major industry in Hong Kong is service sector. It accounts for 88.5% of GDP in 2003. The economy in 2004 and 2005 outgrew stagnancy caused by Asian Financial Crisis and is on a track to recovery thanks to the improvement of service sector. GDP growth rate is forecast to pass the peak of 8.1% in 2004 as 4.6% in 2005 and as 3.6% in 2006. Unemployment rate recorded the worst of 7.9% in 2003 and down to 6.8% in 2004.

	2000	2001	2002	2003	2004	2005 Q1	
GDP at constant (2000) market prices (HK\$ million)	1,288,338	1,294,304	1,319,399	1,340,915	1,471,745	344,411	
GDP growth (%) (at constant market prices)	10.2	0.5	1.9	3.1	8.1	—	
GDP by Economic Activity at Constant Prices	Manufacturing sector (HK\$ million)	71,455	63,319	54,848	47,895	—	—
	*% growth	6.1	-11.4	-13.7	-12.7	—	—
	Services sector (HK\$ million)	1,053,202	1,031,542	1,055,535	1,042,014	—	—
	*% growth	4.9	-0.2	0.4	-1.3	—	—
	Construction sector (HK\$ million)	44,024	58,971	53,089	44,233	—	—
*% growth	-4.8	-7.9	-10.0	-12.9	—	—	
Total labour force	3,402,200	3,439,900	3,487,100	3,494,200	3,529,000	—	
Total Labour force growth rate (%)	1.8	1.1	1.4	0.3	0.9	—	
Unemployment rate (%) (seasonally adjusted)	5.4	6.1	7.3	7.9	6.8	—	

The Hong Kong economy is affected by the number of tourists from mainland China and the exchange rate of Hong Kong dollar may be affected by the margin of fluctuation of Chinese yuan. For some time, interlock system of 7.8 HK\$ equivalent to 1 US\$ will be kept.

### 【Construction Industry】

Recovery in real estate and construction sector is slow. Construction sector accounts

for 3.9% of GDP and has been on the decline in late years. The number of employee in the sector accounts for 7.6% of the total number of payrolls and has been on the decline in late years, too. The breakdown of construction investment is residential 35%, non-residential building 34% and civil engineering works 31%. New construction investment has been reduced by 9% respectively in 2002 and 2003. In 2004, it is reduced by 16%.

The Government of Hong Kong has taken several measures to recover the real estate market, such as incentive scheme for householders, increase of the house mortgage loans. Real estate price and rental rate started to pick up in 2004 and continues to rise in 2005. In the budget of 2005 to 2006, "the public sector will try to step up the spending cuts and leave room for private sector to expand more" was included. Also investment in infrastructure works will be increased, for example, some bridge works and highways between Hong Kong and mainland China will be started.

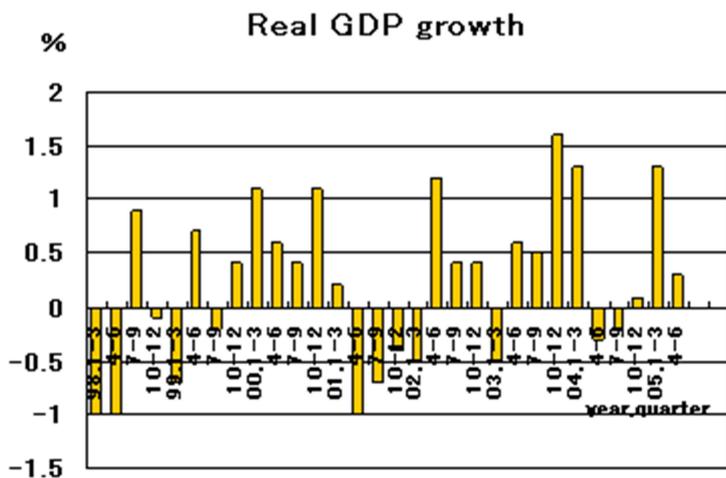
Most of public works have been procured through open competitive bidding. Hong Kong has joined in GATT and WTO and there is no institutional barrier against foreign capital companies. There are mostly Chinese heritage companies in the real estate and construction sectors, but in the civil engineering works sector the percentage of foreign capital companies is high. Generally speaking, foreign capital companies entered the market by BOT and JVs. Also they have tried to obtain lump sum contracts of design build.

Hong Kong has entered into CEPA (Closer Economic Partnership Arrangement) with mainland China. So construction companies in Hong Kong can do the business activity in mainland China. The foreign capital companies can also do the business activity in mainland China through the cooperation with the Hong Kong companies (Including merger and acquisition).

## **Japan**

**【Macro Economy】**

Prime Minister Koizumi inaugurated in 2001 and the Government has carried out the structural reform. Partly due to this reform, Japanese economy is showing the sign of recovery. Private sector is the driving force of this recovery. Capital investment has been increased by steady growth of corporate earnings and non-residential construction has been increased with it. Residential investment has been



increased due to the steady growth of private consumption. Economic recovery has been reflected in stock market. Leading stock index, Nikkei Stock Average, remained sluggish in 1990's, but is recently on a track to recovery. The Japanese Government forecasts 1.6% GDP growth. RICE (Research Institute of Construction and Economy) forecasts 2.4% GDP growth, because RICE assumes this steady growth of private capital investment and private consumption

will continue.

**【Economic Policy】**

Koizumi Government focused on structural reform and deregulation. The slogans are as follows: “No growth without reform”, “Let private do which can be done by private”, “Let local regions do which can be done by local regions”. The administration has delegated the power from the central government to local governments. Also the administration has tried to implement the small government by having delegated some works from the government to private sector. In the meantime, long-term slow economy has brought shrinking tax revenues and ballooning government bonds. Outstanding balance of issued government bonds has swollen to 540 trillion yen and it has become annoyance.

**【Construction Market】**

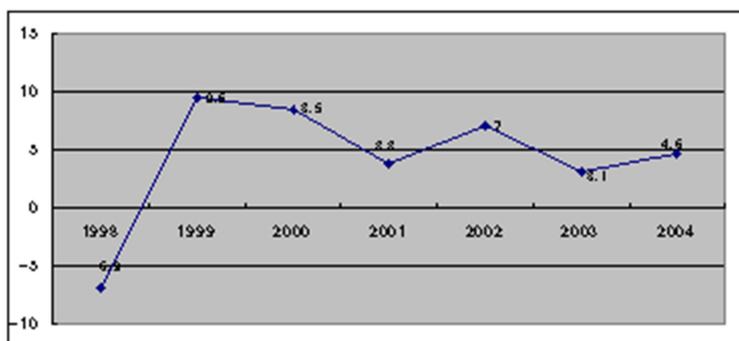
Construction investment amount maintained an upward trend in mid 1990's. The present amount has fallen to the level of 1980's. RICE forecasts that FY2005 amount will show a 0.6% decrease from the previous year's figure. This means the decrease will still continue, but year-on-year decrease rate will be slowed down. RICE forecasts that construction investment in FY2010 will be between 46.9 and 51.5 trillion yen and in FY2020 between 39.9 and 51.4 trillion yen in the mid and long term forecast.

In the meantime, renovation market will be on the rise. In FY2010, the market will be swollen to around 24 trillion yen, and in FY2020, swollen to around 28 trillion yen. In the shrinking construction market, construction companies are forced to turn around. The task of the construction companies are the creation of the new market or entry into the new market, such as promotion of the management efficiency through IT investment, new businesses, PFI and construction management. The major construction companies try to expand the sales abroad proactively.

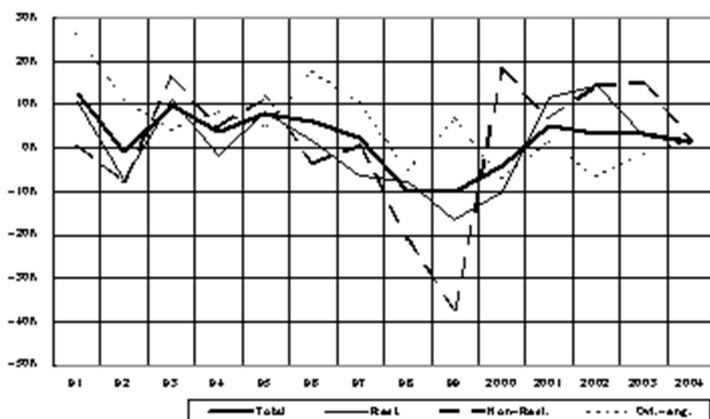
## Korea

### 【Macro Economy】

Korean economy has overcome the currency crisis in 1998 and has grown out of the sluggish growth caused by worldwide recession. Real GDP growth in 2004 has risen to 4.6% from 3.1% in 2003. The recovery of the export of IT and electronic products has boosted Korean Economy due to recovery of worldwide economy. The economy has affected the employment and lowered the unemployment rate to 3.4% in 2004 from 7.0% in 1998.



### 【Current Status and Business Climate of the Construction Industry】



Thanks to Action Plan done by the Government from 1999, construction market has shown the sign of the recovery. In 2003, the rate of increase of construction investment recovered to the level of 1997 before currency crisis. The growth of the construction industry is fairly high and the rate of increase in 2003 was 7.6% and 4.1% in 2004. This is caused by the

construction in the private sector supported by the uptrend of the house construction, and the road and harbor construction by the Government. However the Government started to take anti-profiteering measures of real estate market and a price stabilization policy of the housing in the capital region. Under the influence of these measures, real estate market fell into a slump and the construction

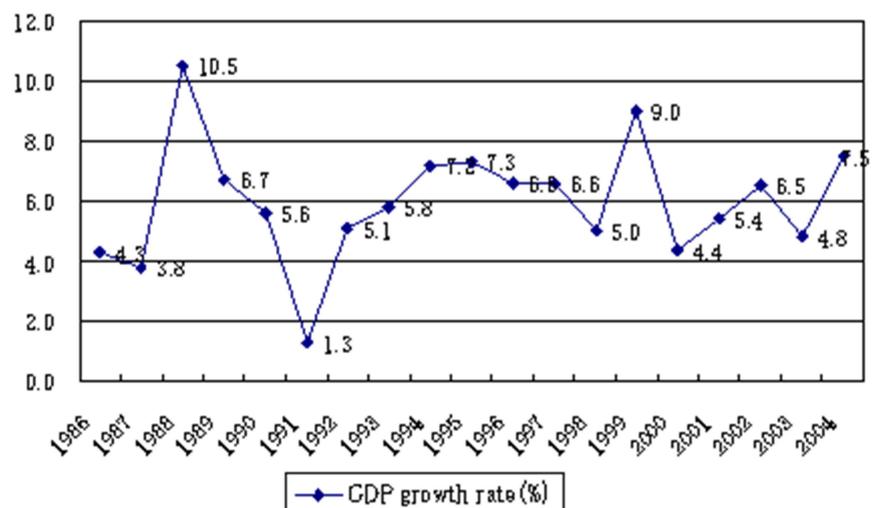
investment grows at a negative rate. As of March 2005, the growth rate of the construction investment is forecast to be negative 2.9%.

The necessity of the private investment in the infrastructure is increased to reduce the Government's burden under the situation of the increase of the government spending on welfare and a new knowledge industry. In response to this trend, the Government plans to execute 10-year plan of PFI, and to induce of the participation of the private capital into the infrastructure building to activate PFI. The Government is promoting the registration system of the construction industry. This is due to the law revised in 1996, and construction companies should register in either as "general construction trader" or "special construction trader". General construction traders must register with the Ministry of Construction and Transport and special construction traders must register with the local governments. It is necessary to meet the requirements of technology, the capital, and facilities and equipment to register, and as a result, the procurer can select an appropriate trader.

## India

### 【Macro Economy】

In Indian economy, traditional village agriculture, modern agriculture, a manual industry, various modern industries, a lot of support businesses, and industries are the economic centers. The reform advances, and the 350 million consumers who are in the middle income class have made use of such new chances in the field of manufacturing, the trade, and the investment. India has an economic power of the 5th place in the world in the purchasing power parity, and Indian economy continues to grow with the reform in spite of terrorists' threat and a continuing inflation. The Government Planning Committee will be setting the target value of the GDP average annual growth rate of 7.4% next 10 years. To accomplish the goal, the growth of the infrastructure investment is required.



## **【Construction Industry Outlook】**

In airline industry, in 10 years, the number of the passenger on domestic flights is forecast to increase 12.5%, 7% on international flights. On cargo freights, the volume is forecast to increase 4.5% on domestic and 12% on international. To meet this demand, AAI (Airports Authority) of India puts focus on the renovation of the existing airports rather than opening new airports. In this policy, AAI plans to develop model airports in 2 cities which are provided with the latest equipment by 125.7 million US\$, and to expand aerial routes management and airport infrastructure by investing 1.1 billion US\$.

In port and harbor sector, the acceptance ability of further 350 million tonnage will be required by the year of 2005 to 2006. The amount equivalent to 7.3 billion US\$ investment is needed for that.

In the road sector, it is estimated that the investment of 33.7 million US\$ will be necessary by the year of 2005 to 2006. As for the investment, private sector participation is required in addition to the finance by government budget, multinational organizations, and foreign governments. The Government welcomes the entry of the public-private joint enterprise into the city infrastructures such as city and waste water service, the public transportation facility, the city planning, and the house, roads, and bridges. And the Government promise the support to them in the form of capital participation, preferential treatment, the repayment financing, and transparent measures.

The Government has introduced a fundamental reform into an existing system in the respect of the law, the contract, and the corporate compliance by the liberalization that has been done under World Trade Organization (WTO). In the public sector, pulling the investment out of government-owned business and the public enterprise have been accelerated, because it had been recognized that they cannot deal with the problem brought by the internationalization of the business. State monopolized enterprise, such as power supply, was privatized. Many public facilities are now managed by private sector. Also even in the field of national defense where the classified information is treated, the door is open to the private sector gradually.

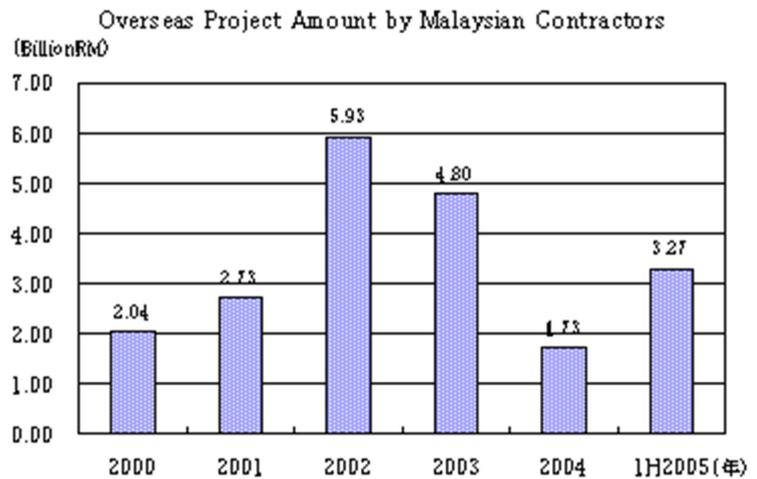
## **Malaysia**

### **【Macro Economy】**

Malaysian economy keeps steady economic growth after the big negative growth in 1998. It accomplished 5.2% GDP growth in 2003 and it appeared to have recorded 7.1% growth in 2004.

## 【Construction Market】

In the meantime, forecast amount of new construction start is 44.8 million RM in 2004, 41.8 million RM in 2005 (6.0% decrease year-to-year comparison), 40.0 million RM (Government 21 million RM and private 19 million RM) in 2006 (4.3% decrease). It means Malaysian construction market has the tendency to shrink. In connection with the shrinking market, the number of Malaysian construction companies which launch



into foreign markets is increasing. The main countries are India, UAE, Bahrain and Qatar. To expand this entry, Malaysia construction industry development bureau (CIDB) is making a point rating system of accessibility, in which Malaysian construction companies can enter the market, in terms of the possibility of receipt of order, the business environment, financing, and the risk, etc. In this point rating system, CIDB takes a hopeful view on South East Asian Countries such as Indonesia, also on South Asian Countries such as Pakistan. The entry into overseas market is continuing to increase.

## 【Construction Industry】

The number of registered construction companies in Malaysia as of June 30, 2005 is 64,220 of domestic capital and 80 of foreign capital. Domestic companies are registered according to the grade of G1 to G7, and the amount of construction which can be participated in the tender is limited according to this grade. (G1 maximum amount is 200,000RM. G7 and the foreign firms are unrestricted.) The tasks of the Government are to control an increase in the number of companies which enter into foreign markets without proper financial strength, and bringing the domestic market a proper competition. Also the promotion of the private-sector initiative, the simplification of various procedures, and the activating of the domestic market are the tasks.

## New Zealand

## 【Macro Economy】

New Zealand economy went very well for 3 years from 2001 to 2003. The real GDP growth rate in 2003 was the peak of 4.5% and in 2005 it recovered to 4.2% after slight slow down of 3.6% in 2003. The interest rate took an upturn and continues in a comparatively high level, NZ dollar rises to the US dollar in the exchange rate due to the strong economy. Employment rate increased by 4.3% and unemployment rate decreased to less than 4%.

	2000	2001	2002	2003	2004	2005
<b>GDP and Components</b>						
GDP at real prices (1995/1996 base yr) NZ\$(million)	102,896	105,216	108,893	113,940	118,033	122,936
GDP at current market prices NZ\$(million)	108,571	114,733	123,531	128,882	137,150	147,450
GDP growth (%) at real prices	5.2	2.3	3.5	4.6	3.6	4.2
Agriculture % growth	3.0	3.7	2.9	1.8	3.3	2.0
Forestry, Fishing and Mining % growth	4.2	2.0	1.5	3.1	-7.9	-2.2
Manufacturing % growth	4.9	2.7	1.3	5.6	1.5	1.6
Construction sector % growth	16.7	-8.2	3.4	11.1	10.6	7.3

## 【Construction Industry】

The growth rate of construction sector decreased to 7.3% in 2004 from 10.6% in 2003, still the figure in 2005 seems to surpass those of other sectors. It comes from the increase of the population and GDP growth in the past 3 years. Moreover, in the background of the high growth, there is an infrastructure development such as road, transportation system and the social infrastructure, etc. Though such an economic boom, especially the expansion of the housing market, became the cause of the rise of the interest rate in 2004 and 2005, at present, cooling of the economy is not seen.

Recently, the Government made the restrictions to the construction industry tighter. A law (Construction Contract Act in 2003) that relates to contract terms and a short-term agreement were enforced to deal with the moisture problem of buildings. The Ministry of Housing Construction was newly established in July, 2004 by a new law (Building Act in 2004). Building contractors must obtain a license which was unnecessary before following this act. However it will take 5 years to obtain a license, new contractors cannot obtain a license. In a word, inconvenience in terms of the training and the qualification is caused, and there is a possibility

that the qualified contractors might fall short. To deal with this problem, the development of the system is prepared in which the qualification relating to do the business and the permits of the industry can be efficiently and quickly acquired.

## **Singapore**

### **【Macro Economy】**

In 2003, SARS (Sever Acute Respiratory Syndrome) went around and the GDP growth rate was 1.4%. In 2004, prime sectors except construction industry have been increased and GDP growth rate seemed to be 8.4%.

The labor market rebounded strongly in 2004. Total employment grew by a substantial 66,200 in 2004, more than recovering the job losses totaling 35,900 over the preceding three years. Unemployment rate for the whole year average 4.0%, lower than the 4.7% registered in 2003.

Even though the construction sector was the only sector that suffered a decline over the year, in 2004 the unemployment rate shrank by 6.5% and it was an improvement from 9.5% in 2003. Public sector certified payments receded by a greater amount, but the part was offset by a smaller decline in private sector construction activity.

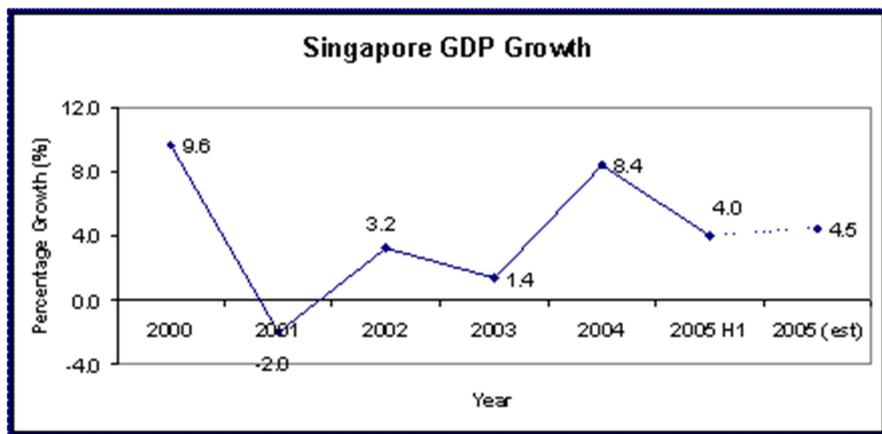
In the first half of 2005, the Singapore economy grew by 4.0% due to a better performance in the second quarter. Higher second quarter growth was attributed to an expansion of biomedical output and robust performance in key services sectors such as wholesale and retail trade and financial services. The manufacturing sector saw an increase of 5.9% in output during second quarter 2005, up from 3.4% in the first quarter. A recovery in biomedical output and stronger showing in precision engineering and transport engineering contributed to the better performance. The construction sector fell by 0.5% in second 2005, an improvement over the decline of 5.6% in first quarter. The wholesale and retail trade sector expanded by 8.3% in second quarter, better than the 6.9% clocked in the previous quarter. Hotels and restaurants registered a 5.3% gain in output during second quarter, compared to 2.4% in the first. On the back of strong growth in regional visitors from Southeast Asian countries, visitor arrivals grew by 7.9%. Growth In the transport and communications sector clocked 4.6% in second quarter, almost similar to the 4.7% for the previous quarter. The air segment saw faster growth as a result of an increase in air passenger volume. Financial services expanded by 6.8% in second quarter, faster than the 2.0% growth in first quarter. The business services sector grew by 3.1% in second quarter, a pick-up from the 2.1% gain in the previous quarter. The expansion in the sector was driven by continued robust performance in

the business representative offices and IT & related services.

Moving forward, the outlook in the second half of the year has improved. Continued growth in the major economies, a tentative recovery in the global electronics industry, limited impact from higher oil prices and stronger domestic forward looking indicators, together signal better prospects in the next six months. Stronger domestic forward-looking indicators suggest that growth momentum would continue for the rest of this year. The latest business expectations survey reveals that sentiments in both the manufacturing and services have improved. In view of the improved outlook, the Ministry of Trade and Industry has narrowed the 2005 GDP growth forecast to 3.5%-4.5%.

### 【Current Status and Business Climate of the Construction Industry】

The total value of contracts awarded in 2004 was about 10 billion S\$, similar to 2003's level. Building works took up about three-quarters of the contracts awarded and the rest went to civil engineering works. 55% of the works were generated by the private sector.



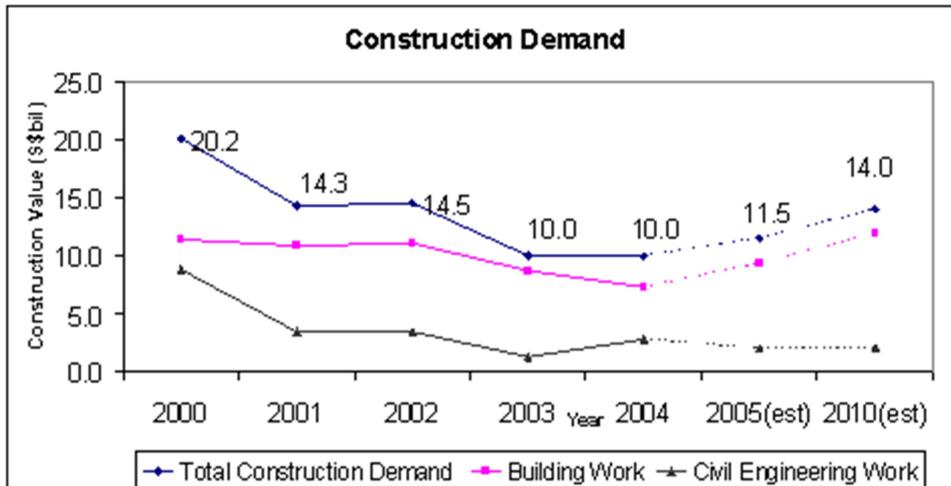
Total value of public sector construction orders in 2004 was 4.6 billion S\$, a drop of 15% over a year ago. While the building developments shrank by 40% to 2.6 billion S\$, civil engineering works registered a robust increase of 76% to 2 billion S\$.

Total value of construction orders in the private sector expanded by 16% to \$5.4 billion in 2004. Residential and commercial building construction demands stayed firm on the back of strong economic rebound. In contrast, industrial and institutional and other building construction demands were lower. On the other hand, civil engineering works turned around and marked a three-fold increase.

Total construction demand in 2005 is likely grow to between 10.5 billion S\$ and 11.5 billion S\$. The private sector construction demand is anticipated to lead the growth with strong support in particular from the industrial building developments. On the other hand, total public sector construction demand is expected to remain at similar level as last year.

Looking forward, construction demand is not expected to reach a level as in the heyday during 1997. The total annual volume seems to bottom out in these few years; however, a drastic turnaround is not

likely to materialize in the medium term. Nevertheless, long-term economic growth, new measures to boost the property market, major projects (e.g. proposed Integrated Resorts with casino facilities, new Business Financial Center at Marina Bay) and infrastructures could lead to a positive growth of the industry. In addition, the Government will also explore more PPP (Public Private Partnership) projects over the next few years to enhance cost-effectiveness.



## Sri Lanka

### 【Macro Economy】

Sri Lanka economy has experienced a combination of positive and negative impacts. The recorded growth rate of 5.4 per cent in GDP is a remarkable achievement in the wake of adverse economic shocks experienced due to heavy escalation of oil prices followed by a drought, floods and Tsunami disaster. There is a remarkable improvement in the private sector investments and services and the industry sectors. Hence two factors with the combination of ceasefire environment and the strict enforcement of other economic reforms has managed to absorb the economic shock mentioned earlier and maintain an economic growth of over 5 per cent in GDP. The other achievement is that per capita GDP exceeded 1,000 US\$ for the first time.

### 【Construction Industry Outlook】

Construction sector plays a predominant part in the economy of the country and its contribution to the GDP in year 2004 of 7%. This is a remarkable achievement compared to the year 2003 where contribution to GDP was 5.1%. Liquidity issues in the state sector institutions contracting out work has

resulted in long delays in making progress payments. Domestic financial institutions are classifying construction as a high-risk area and thereby levying high interest rates. Lack of policy to downsize large projects to smaller packages to come within the range of domestic firms has been a factor limiting their work load. Lack of proper authority to monitor and regulate the sector is seen as a big void in developing the sector.

#### Construction Investment (or Market) by type

(Unit: Local currency at current price Rs. Million)

	2000	2001	2002	2003	2004
Residential Construction					
Public	14373.5	17138.5	N.A--		
Private	54971.8	59,662.70	68074	73125	94937
Total Residential	69345	76801	N.A	N.A	N.A
Non-Residential Construction					
Public		--	--		
Private	26177	28410.8	32416	34822	45206
Total Non Residential	26177	28411	--	--	
Civil Engineering Construction					
Public	--	--	--		
Private	49736	53980.5	61590	66161	85896
Total Civil Engineering	49736	53981	--	--	--
Total Construction Investment	145,259	159,194	179,298	192,645	231,875
Public	14374	17139	17218	18537	5,834
Private	130,885	142,055	162,680	174,108	226,041

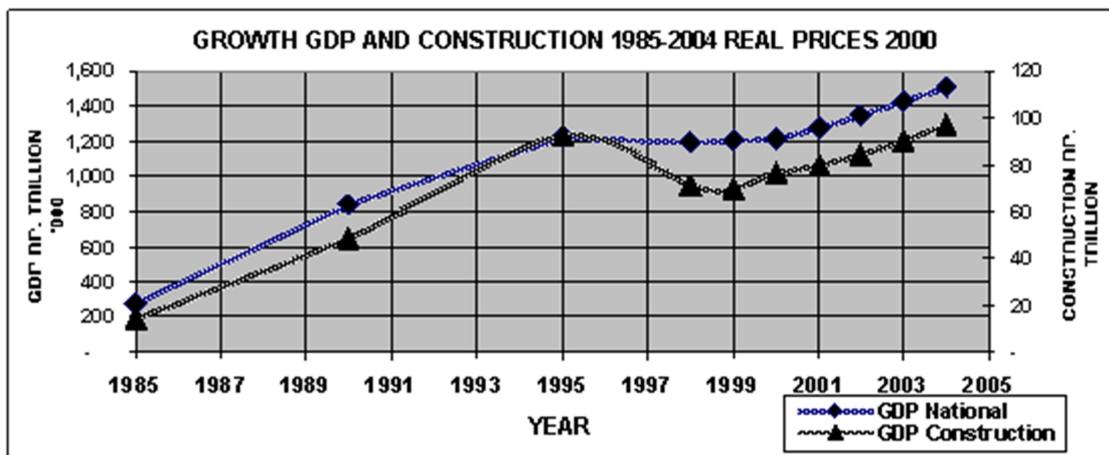
Source of Information : Department of Census and Statistics

## Indonesia

### 【Macro Economy】

The Indonesian economy is in a stable shape towards increased growth. The Indonesian GDP for 2004 in constant 2000 real prices was 1511 trillion Rupiah, which represents a 1.03% increase on the previous year. To January 2005 the gross domestic product grew at an annual rate of 5.13%. (CBS EI January 2005). During the same period the consumer price index standing at 118.53 in January 2005 grew by only 1.43 points against 0.57 the previous year (2002=100). The interest on 90-day bank deposit bills was 6.65% in October and the 10-year Treasury Bonds returned 8.31%.

Rising cost of materials including crude oil leading to increase in inflation from 5.06 in 2003 to 6.4% in 2004 and cyclical Rupiah devaluation of 20% to the US\$ has forced the Government to instigate recently minimization of energy consumption nationwide. The unemployment rate however, increased from 15% in 2003 to 16% in 2004. Despite current uncertainties about the international economy and the downturn in balance of payments from US\$28.6 Billion in 2003 to 23.5 in 2004, the rate of economic growth is forecast to continue into 2005 at 6.5%, with the domestic economy proving to be relatively resistant to adverse global economic conditions.



### 【Current Status and Business Climate of the Construction Industry】

The stability in the economy, with lowering of short term interest rates to 15% today from 18% in 2003, has led to a recent cyclical improvement trend in the level of construction activities. For the financial year to 2004, the value of work done increased by 7% over the previous year and is seen to continue this growth. Residential and non residential building activity fell in 1999 and began to show continuous rise till 2004 to 7.4 trillion Rupiah (in Constant Real Prices 1993) after 5 successive years of growth after the dip in 1999.

Non-residential building similarly fell in 1999 to a low of 3.9 trillion Rupiah from 6.7 trillion Rupiah of the previous year and steadily rose to 5.7 trillion Rupiah in 2004. The other sectors of construction all experienced the same dip in 1999 except for Roads Bridges Railway Airport Ports Bus-Terminals from a low 4.1 trillion Rupiah in 1998 to 9.8 trillion Rupiah in 2004. Other construction experienced the dip from 4.8 trillion Rupiah in 1999 to 6.4 trillion Rupiah in 2003 and then continuous growth till 6.8 trillion Rupiah in 2004.

The Government is very interested in PPP, which introduce private sector fund into infrastructure building. There are very few cases of instances.