

An Overview of the International Construction Market

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Abstract

The purpose of this paper is to analyze the current trends in the international construction market. The analysis will be conducted from several different perspectives. The world will be divided into various geographical regions such as the Far East, Middle East, Europe, and Latin America. Data from each of the aforementioned regions will be examined to interrupt both the extent of their own involvement in foreign construction billings as well as their domestic construction billings from other regions. In addition to the region-by-region analysis, international billings of contractors from specific nationalities will be considered in an effort to provide ideas for new construction companies seeking opportunities apart from their own respective regions. This paper will also focus on factors impacting international construction such as legal frame work, political issues, project types, and governmental investment opportunities.

Key words

International construction, Construction industry, International billing, Globalization

1. Introduction

International construction offers many benefits for contractors seeking opportunities abroad such as increased diversification, company growth, and maintaining a competitive edge. However, first time contractors must also be cognizant of the associated risks with working in a new region including but not limited to the legal frame work, governmental involvement, and the political environment. In addition to these risks and benefits, the question of which region and what sector will provide with the most and best opportunities must be answered. The trends analyzed in this paper will provide insights for contractors on where and what to build. The analysis is based on the data collected from the past six years (2000 to 2005) of the international construction market (Source: Engineering News Record).

Trends in international construction are similar to the progress charts of different construction companies in the international market; analysis is based on their performance in billing, work type, and region of workplace. These progress charts assist new construction companies and market analyzers in their effort

of searching for the best opportunities in international construction. They work like a snapshot in that they offer a glimpse of an international construction company’s past work and provide a forecast for future problems and shortcomings to newly emerging companies in the international market.

As a result of the globalization of the construction industry, many domestic companies are trying to establish a presence in the international market. However, the global market is susceptible to the political, legal, and regional issues, which creates setbacks for the new construction companies as well as provides strong competition from the domestic contractors. The reasons behind these types of issues and their effects on international market are analyzed in this paper.

2. Analysis by Region

2.1 Middle East

The Middle East, famous for its wealth and oil resources, has attracted the interest from many international construction companies to the region. As shown in Figure 1, projects associated with petroleum have dominated the construction industry. Most of the petroleum projects in the world are constructed in this region. From the years 2000 to 2005, the increase in investments in petroleum projects have created opportunities for other projects in housing, healthcare, education in the Middle Eastern nations. The contributions from this region to the international market have significantly increased to an average of 15% over the past few years.

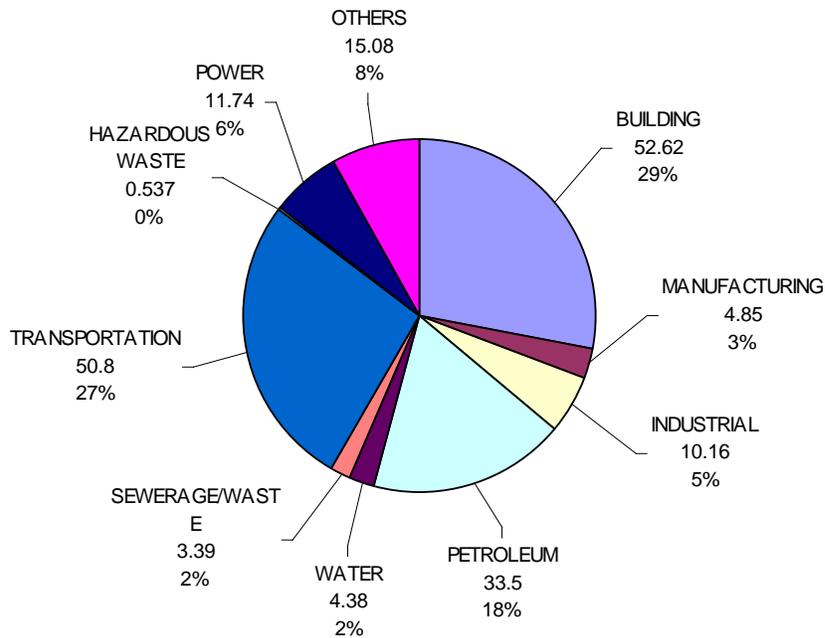


Figure 1: International Billings by Type of Work/Projects (bil. \$)

As shown in Figure 1, approximately 18% of the total revenues worldwide (\$189,412.2 Mil.) are from the petroleum sector showcasing the possibility of future opportunities in petroleum projects. These opportunities arise in the wake of several years of increased oil and gas prices, which have resulted in the world’s expectation that oil and petroleum plants be either created or expanded (ENR-Top 225 International Contractors, 2005 and 2006).

In spite of the healthy construction growth in the Middle East, there are still areas where international contractors are facing problems. As a result of political instability and the war in Iraq, many UK and USA based construction companies are re-examining their human resource allocations and adjusting their plans for projects in the area. In response to surveys by UK based EPC Global, administered to 2,128 international construction employees working in the region, 17% indicated they would not work in Iraq, while 56% said they would do so only if the financial rewards were sufficient. Also, the absence of skilled engineers in the region causes delays impacting the cost and quality of work directly. Such reasons are forcing the construction companies to rethink their financial and human resources commitment to future projects in the Middle East (ENR-Top 225 International Contractors, 2006).

2.2 Far East

Asia features nearly half the population of the world and contains the second largest market in international billing with 18% (Figure 2) of the total international billing (\$189,412.2 Mil.). There are many opportunities in Asia for international contractors given the demand for infrastructure. These opportunities however are not consistent across the region; in China, for example, the international contractor's participation in the construction industry is limited to consultancy services. These services typically consist of engineering, project management, supervision, and training services for personnel in large construction projects. Generally speaking, most of the construction projects in this country are undertaken by the state owned construction companies, which results in a limited scope for the international contractors. There are some legal, economical, and political reasons behind this situation in the Asian market.

China, the largest socialist country in the world, has set up strict rules concerning the involvement of the international contractors with construction projects. They are allowed to work only on special projects which require advanced technologies, projects that help in the transfer of technology, foreign and joint venture investments, and projects funded by outside sources such as the World Bank or UN. In addition to the previous restrictions, preference in terms of an awarded contract is given to a local contractor who is able to produce the same quality of work as the international contractors (Chen and Wills, 1999).

There are additional reasons why international contractors do not show much interest in the Chinese market, for instance, the Chinese people prefer to do business with people who are to them well known and trustworthy. As a result of this cautious approach, the negotiation and approval period for international contractors takes longer time than for a local contractor. Obtaining a first class contractor licenses is very difficult in China (ENR-Top 225 International Contractors, 2006). As a result of the lack of contractual law and complete legal system, contractors are able to receive compensation by negotiation in small scale projects, but these are usually not adequate enough to attract major international contractors. In order for an active participation of international contractors in China, legal issues regarding construction contracts have to be more transparent.

The situation in Japan is similar to that of China, in that there are problems with the legal frame-work; of those international contractors working in Japan, they are finding success. Analysis of the construction markets in developing countries in Asia such as India, Pakistan, Bangladesh, Sri Lanka, etc, reveals a great demand for infrastructure facilities, such as transportation and housing projects. Examples of the transportation infrastructure include airports, railways, and highways. Fortunately, for contractors seeking opportunities in these countries, there are not many issues resulting from the government in terms of contractual concerns.

2.3 Europe

Unlike other regions of the world, the European construction industry plays a huge role in the international construction market in both international billing by region and contribution from its

contractors. For the past six years, the European region has been the leading region in international billings. Europe has billings totaling \$68,584.5 Mil., which represents approximately 37% of total construction billings of \$ 189,412.1 Mil. for 2005 (Figure 2).

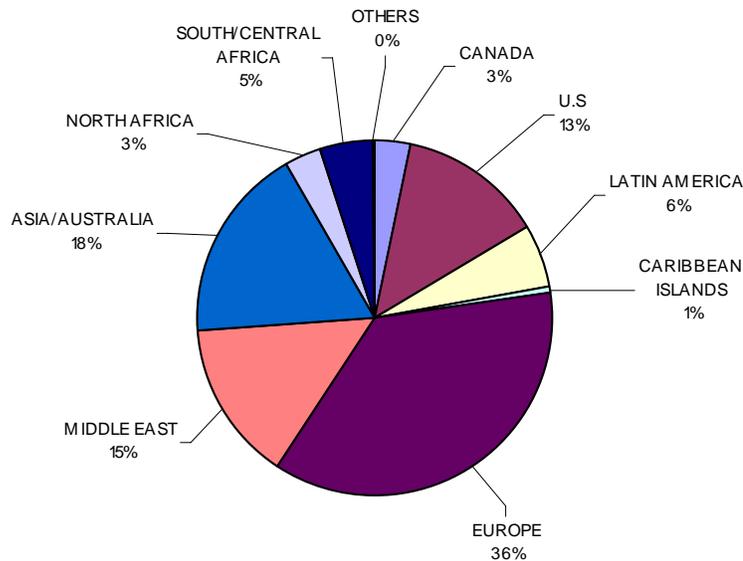


Figure 2: Distribution of International Billings by Region for 2005

The reasons for the international contractors getting attracted towards the European construction industry include:

- Transparent legal frame work
- Political and economical stability
- Clear procurement rules
- Fair competition in the market
- High risk transfer

The construction industry in the UK has unique features; for example, it has specific laws related to the payments and disputes specifically for the construction and engineering industry. The Construction and Regulation Act of 1996 introduce ways to improve cash flow in the industry and it provides a unique stationary right to resolve payment and other disputes quickly by way of adjudication (Morris, 2005). The Act also applies to all types of contracts such as the main contract, sub contract, and professional appointments. Its success has inspired other nations like Australia and New Zealand to implement similar provisions in there laws as well.

The German legal system is based on a codified civil law system. Before 1926, the German civil code contained only few provisions dealing with construction law and it was found to be general and non specific. In 1926, the German Procurement and Contract Committee, the Deutscher Vergabe-und Vertragsausschuss (DVA), developed specific standard terms and conditions for the construction industry (Wittler, 2005). VOB provides contractual terms for:

- General contractual obligations
- Contractual deadlines
- Warning and penalty clauses

- Term of payment for extra work
- Payment condition
- Dispute resolution
- Securities

The European commission is keen on eradicating anti-competitive practices; these are known as ‘hard core’ cartels. They are defined as anti-competitive agreements or concerted practices amongst competitors to fix prices, rig bids, share or divide market. In the UK, the government has taken these concerns seriously and is implementing unlimited fine and in severe cases, imprisonments of five years.

The international construction industry is heavily dependent on the transportation and building sector in Europe. According to the data, these projects contribute approximately 27% and 29%, respectively, of the total type of work. Most of the projects in Europe are building, transportation, and other infrastructure works. Europe is not only a major contributor to the international construction industry but it has also become home for many spectacular construction projects. An example is the Trans European Network (TEN) which was launched in the year 1994. This project connects most of the major cities in Europe, crossing many borders. It is estimated to be completed in the year 2018 and estimated to cost \$179 billions (International Construction, 2005). In addition to the TEN project, the 2012 Olympics will to be organized in UK and related projects will make Europe one of the most active places for International construction for at least 5 more years.

2.4 Latin America

Latin American countries have contributed only 6% of the total international billings in 2006 as shown in Figure 2. There is a gap in international billings in comparison to other regions especially Europe, Asia, the Middle East and the US. Unlike other economically dynamic countries such as China, India, and other Asian countries; Latin American countries do not have long term strategic plans for development. Sometimes infrastructure projects may be abandoned for years causing delay of work and unclear conditions for construction industry. Also, opposition to the privatization in Latin American countries has caused serious problems to the international construction in this region. Many of the private companies have withdrawn their involvement in public infrastructures and this can be clearly analyzed from Figure 3, which displays the declining private participation in infrastructure projects. There was a 49% decrease in private participation in infrastructures from year 2000 to 2005 (World Bank, 2007).

Even though there is not much GDP variation between Latin American countries and China, Latin American countries have fallen behind in terms of infrastructure. According to a World Bank report, Latin countries need better infrastructure to compete with Asia. Latin American countries invest an average of merely 2% of their GDP for infrastructure, whereas other countries such as China, invest around 4% to 6% of their GDP (High, 2005).

Generally speaking, language is not a major factor for the decision making process of international contractors seeking projects abroad. Even though language will not prevent a contractor from doing work in a specific region, it can provide other problems. Language barriers for example can make it difficult to understand the legal issues, prepare contract documents and communicate with sub contractors.

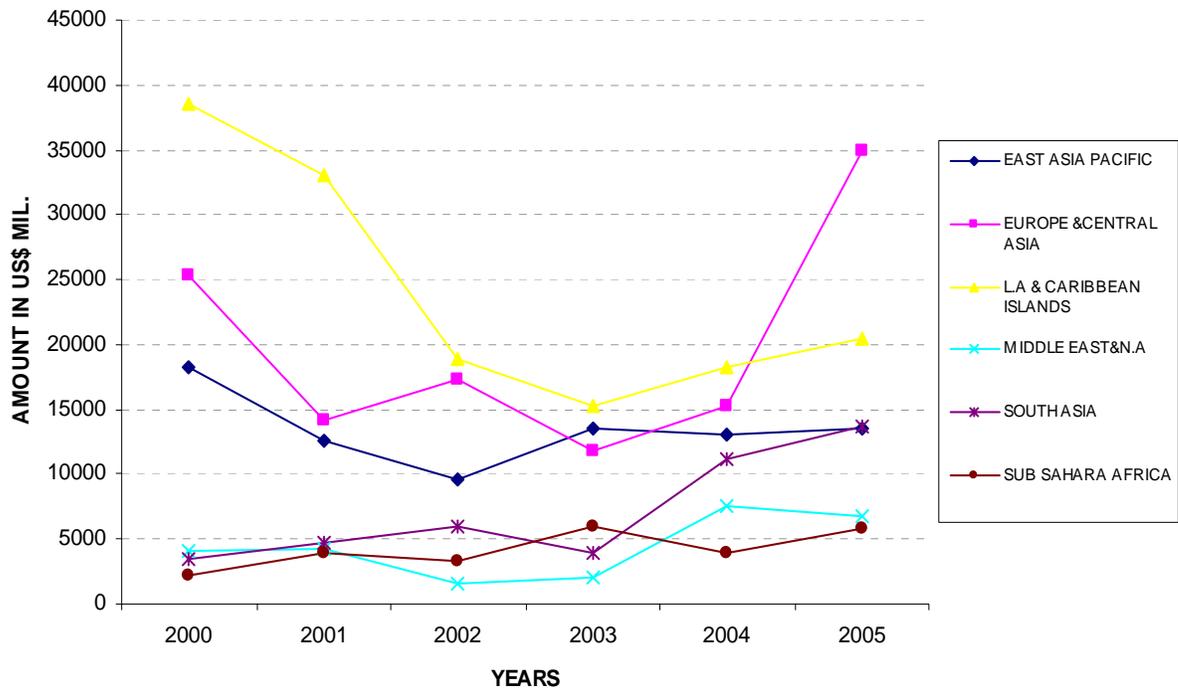


Figure 3: Private Participation in Infrastructure Projects by Region

3. Conclusions

This paper provided a region-by-region overview of the international construction market in an effort to assist construction companies seeking opportunities apart from their own respective regions. This paper also discussed the factors affecting international construction such as legal frame work, political issues, project types, and governmental investment opportunities. It was found out that countries encouraging infrastructure projects along with a clear legal frame work and fair market conditions provide good opportunities for international contractors.

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