

7th Asia Construct Conference

SUMMARY

1. Asian economies and construction markets

(1) Macroeconomic conditions

After the Asian currency crisis of 1997, the economies of the Asian nations made a good recovery until 2000, assisted by the buoyant U.S. economy and greater export competitiveness following currency devaluation. The situation changed in 2001 as the rate of U.S. economic expansion slowed, taking the edge off the growth of the Asian economies. The key to help speed up economic growth in Asia will be a surge in exports to the U.S., driven by the economic recovery of the United States; a further downturn, however, is possible if the U.S. economy remains weak. (Refer to Table 2.)

Table 1 Trends and outlook of macroeconomy by country

	Real GDP growth rate				
	1997	1998	1999	2000	2001
China	8.8	7.8	7.1	8	–
China, Hong Kong	5.3	–4.7	–3.1	10.5	–
Taiwan	6.7	4.6	5.4	5.9	–
India	6.6	5	9	6.8	6.5
Indonesia	4.8	–13.6	–	–	–
Japan	0.2	–0.8	1.4	1.7	–0.9
Korea	5	–6.7	10.7	8.8	3.7
Malaysia	7.3	–7.4	5.8	8.5	5
Phillipines	5.2	–0.6	3.4	4	2.5
Singapore	8.5	0.1	5.9	9.9	0.5–1.5
Sri Lanka	6.3	4.7	4.3	6	–
Vietnam	8.2	5.8	4.8	5.5	–
Thailand	5.9	–1.4	–10.8	4.2	4.4

Notes: 1. Data from the Seventh ASIACONSTRUCT Conference (October 2001), the Cabinet Office (data on overseas economy; October 2001) and RICE ("Forecast of Construction and Economy", January 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 2000

Construction investment in the countries of the Asian region in 2000 totaled around about 1,117.6 billion dollars (at the average exchange rates in 2000, this would be equivalent to about 120,400 billion yen) making the Asian construction market one of the biggest in the world, along with the ones in the U.S. and in Western Europe. (Refer to Table 3.) Looking at the amount invested in construction in Asia, China seconds after Japan, with 226.0 billion dollars. In contrast, Sri Lanka, the smallest of the group, invested about 2 billion dollars in construction. The total construction investment by these Asia countries (11 countries and 1 province) came to about 70% of the amount spent by Japan—demonstrating the enormous size of the Japanese market. Per-capita investment in construction in Asia (excluding Japan) is only about 166 dollars per person. Similarly to total investment per nation, the per-capita amount varies widely from country to country. In terms of per-capita investment in construction, the construction markets of Asia are still developing, compared with those of Japan, the U.S. and Western Europe. In Asia however, the need for the construction of social infrastructure is generally high; therefore, the growth potential of construction investment over the long term is likely to rise.

Table 2 Construction investment in 2000 by country

Country	GDP in 2000 (current price, US\$ 100 million)	Construction Investment (US\$ 100 million)	Construction GDP Share (%)	Population (thousand)	Construction Investment per Capita (US\$)
China	9,912	2,260	22.8	1,253,595	180
China, Hong Kong	1,628	147	9	6,866	2,143
Taiwan	3,094	327	10.6	22,130	1,478
India	4,626	612	13.2	1,007,000	61
Indonesia	930	126	13.5	204,400	62
Japan	47,601	6,532	13.7	126,892	5,148
Korea	4,105	650	15.8	47,275	1,374
Malaysia	893	104	11.6	23,300	445
Phillipines	350	63	18.1	78,420	81
Singapore	923	135	14.7	3,263	4,147
Sri Lanka	113	19	16.8	19,359	98
Vietnam	287	40	13.8	76,900	52
Thailand	1,222	161	13.2	60,246	267
Total	75,684	11,176	14.8	2,929,646	381
except Japan	28,082	4,643	16.5	2,802,754	166

Notes: 1. "C investment" in the table refers to "construction investment." 2. Data from the 5th to 7th ASIACONSTRUCT conference and ENR. 3. Figures for construction investment for Malaysia are amounts of orders received. 4. Figures for China are most recent 1999 data. 5. Figures for Indonesia and Vietnam are most recent 1998 data.

2. County reports

Hong Kong

The economic slowdown in Hong Kong is having a negative effect on the private sector. In 1999 total construction expenditure reached 60.3 billion dollars, but fell by 44% to 33.5 billion dollars in 2000. There is no expectation that the Hong Kong economy will recover before the end of 2002.

In its 1999 budget, the Hong Kong government highlighted infrastructure construction as being essential for economic growth. Although the public sector was in better shape than the private sector, the economy slowed down from 2000 onwards.

In the private sector there were fewer construction projects in 2000 than in 1999 and competition is growing fiercer. Since 1989, the construction expenditure index prepared by the Building Department has constantly risen. The department's index of construction project bidding prices has steadily fallen since peaking in the first quarter of 1998. Private-sector construction investment is showing a similar downward trend. These trends indicate that the competition in the construction market has grown fierce in the last two years, even though the pace of the rise in construction expenditure and the speed of the fall in bidding prices have slowed. At the moment there are almost no encouraging signs in the Hong Kong construction sector.

In the civil engineering sector, the problem of excess capacity is appearing in the international civil engineering sector and international infrastructure construction sector due to the slowdown in the world economy. Competition in the civil engineering sector is expected to intensify in the next fiscal year.

Construction investment in Hong Kong (at 2000 prices) is around 1,585.5 billion yen (\$US1 = 107.77 yen conversion rate).

India

India has a very large and self-sustained domestic market. Since the Indian economy is maintaining a satisfactory rate of growth, the Asian currency crisis has had little effect on the Indian construction industry.

In the Indian government's 9th 5-year plan, approximately 45% of investment expenditure will be directed towards the infrastructure sector. To achieve the planning committee's target of maintaining an annual average GDP growth rate of 7.4% over the next 15 years, the average annual investment in the infrastructure sector will have to be maintained at 1.8 trillion rupees (39 billion

U.S. dollars) over the next 10 years.

An examination of the growth rates of the various sub-sectors within the infrastructure sector reveals the following. Growth in railway freight is stagnant at about 4%; growth in airfreight rose 6% (1981—91) then soared to 15% (1991—2001); national expressway has increased from 0.5% to 0.6%; and the rate of new telephone line connections has jumped from 19% to 27%.

The targets that India will have to achieve to attain sustainable growth and prosperity goals are extremely high. Per-capita electricity consumption in India is only about a 1/10th of the global average. The diffusion rate of basic telephone lines connections is very low: 1.5 people per 100 people have a telephone line in India, compared with the world average of 10 people per 100. Due to the need to speed up the pace of infrastructure development, there will be excellent opportunities for investment institutions and service providers.

Construction investment in India (at 2000 prices) is around 6,591.5 billion yen (\$US1 = 107.77 yen conversion rate).

Indonesia

The Indonesian construction industry overall has experienced severe retrenchment since 1997. As construction investment is strongly linked to economic growth, the recovery of the Indonesia construction sector will depend on the recovery of the Indonesian economy. In 1989, when the economy began to recover, growth in the construction sector recovered, from -36.4% in the previous year, to -0.8%. In 2000, buoyed by an economic growth rate of about 4.8%, growth in the construction industry recovered to 6.7%.

Demand from the real estate industry, particularly from investors wishing to put money into super malls and supermarkets, has stimulated the commercial real estate market. Investors (mostly from France) have taken the lead in competition to occupy vacant sectors where the market is still immature, for commercial offices and trading space in Jakarta and other cities.

Demand for low-priced housing was expected to rise in 2001, accompanying the government's policies of increasing the level of reliability of small- and medium-sized contractors, aimed at stimulating the commercial activity of small- and medium-sized operators. Since the demand for low-prices housing is still comparatively high (supported by an improvement in the terms of new lending by city banks) expectations of a recovery of the construction sector are exceedingly high.

Construction investment in Indonesia (at the most recent 1998 nominal prices) is around 1,653.3 billion yen (\$US1 = 130.90 yen conversion rate).

Japan

The Asian currency crisis that began in 1997 had a strongly negative effect on the Japanese economy. The effect has been strongly felt in the construction sector, where the crisis caused

orders from the Asian region to Japanese construction companies to dry up. Orders in FY1999 fell to less than half their FY1996 level, but recovered, along with the recovery of the Asian economies, to slightly under 700 billion yen in FY2000.

In its attempts to cope with the deteriorating domestic economy in the wake of the bursting of the economic bubble, the Japanese government has initiated several large-scale economic policies to prop up the ailing economy and drive it forward into recovery. As private-sector investment in construction has waned, the government has pushed ahead with public investment and held it at a comparatively high level, thus a sharp drop in overall construction investment was avoided.

There has been a price to pay for the government's bailing out of the construction industry: over the last several years, the fiscal health of national and local government has steadily worsened. In particular, local public bodies are carrying out fewer and fewer independent projects, and construction investment by governments is showing signs of a decline. It will become harder and harder for government investment in construction to prop up overall construction investment.

Korea

The Korean economy has made a noticeable recovery. GDP growth rates were 10.7% in 1999 and 8.8% in 2000. A rate of about 3.7% is expected for the 1st quarter of 2001. Other major macroeconomic indicators are also favorable. The rate of inflation was historically low in FY2000, recording 0.8% in 1999, 2.3% in 2000, and 5.2% in the 1st quarter of 2001.

Construction investment continued to grow until 1997 due to an expansion of private-sector demand as a result of the growth of the construction industry. Following the financial crisis, the environment surrounding the construction industry has completely changed since 1998. After enjoying continuous record growth for eight years from 1989, the rate of growth of the construction sector fell by 10.4% in 1998 (-2.3% in 1997). Fortunately, the government's action plan for economic recovery helped improve the performance of the construction sector in 1999. Since 1999, this action plan has resulted in a slight recovery of the construction market. The rate of growth in construction investment recorded 0.9% in 1999, -4.1% in 2000, and -1.4% in the 1st quarter of 2001.

Construction investment in Korea (at 2000 nominal prices) is around 7,000.4 billion yen (\$US1 = 107.77 yen conversion rate).

Malaysia

The Malaysian economy entered a recovery phase in the 2nd quarter of 1999, and further expanded in 2000 due to the stabilization of economic development following a recovery of confidence, selective foreign capital regulations and the pegging of the Malaysian Ringgit. Real GDP further grew by 8.5% in 2000. With the exception of mining, the various sectors of the economy recorded positive growth rates (including construction, with 1.1%).

The Malaysian construction industry fell for two straight years (-23.0% in 1998, and -5.6% in 1999) before recovering to positive growth in 2000. The recovery in this sector is largely due to several giant infrastructure projects, and the housing sector—particularly new investment in low- and medium-cost housing. On the other hand, construction activity in the non-housing sector remained stagnant. The non-housing sector has been propped up by ongoing projects beginning before 1999. As of mid-2000, the area of vacant office space stood at 2,773,186 square meters, but it is estimated that over the next several years, some 244,601 square meters of new office space and 1,492,555 square meters of new retail store space will come onto the market. The market is soft, with stock exceeding demand. Very little growth in either the non-housing sectors or the real estate sectors can be expected.

Construction investment in Malaysia (amount of orders received, at 2000 nominal prices) is around 1,117.1 billion yen (\$US1 = 107.77 yen conversion rate).

Philippines

Economic activity in the Philippines stagnated in 1998 and 1999. Private-sector construction demand sagged due to the postponement of investment and projects implementation, a dearth of funding, and the rise in interest rates. A boost in public-sector demand alone for two years was insufficient to support the high rates of growth that had existed before the Asian currency crisis. Public-sector construction investment and private-sector construction investment in the 1st quarter of 2001 declined by 7.1% and 7.3%, respectively. With the establishment of the new Aroyo administration, the government's main economic goals have focused on maintaining growth in incomes, complete employment, and the stabilization of prices. As a result, consumer and investor confidence is recovering. The Philippines is expected to enjoy a brighter economic outlook.

The government formulated the Medium-Term Philippine Development Plan (MTPDP) covering 2001 to 2004 and launched social and economic policies to attain the visions outlined in the Plan. These policies include the construction of infrastructure to raise the living standards of the Philippine people, such as the construction of roads from the farms to the cities, irrigation, basic drinking water supply, the electrification of all population centers, building of schools, housing assistance for the impoverished, the development of remote regions, and so forth. As President Aroyo mentioned in a government address in July 2001, the government will utilize the partnership between the public and private sectors to develop infrastructure, through the Build-Operate-Transfer Law.

Construction investment in the Philippines (at 2000 nominal prices) is around 683.9 billion yen (\$US1 = 107.77 yen conversion rate).

Singapore

Although the Singapore economy in 2000 grew strongly (at 9.9%) over the previous year, it was due to exceptional growth of the electronics industry within the manufacturing sector. The economy is not expected to repeat this feat in 2001. The Singapore Ministry of Trade and Industry has revised its forecast of the 2001 Singapore GDP growth rate downwards by 0.5 to 1.5%. Within the GDP figures, the construction industry contracted by 4.6% in 2000, and labor productivity fell by 3.1% over the previous year before flattening out in the 1st quarter of 2001—ending 10 consecutive quarters of negative growth. Along with an upturn in construction industry GDP, figures for labor productivity are expected to show growth in 2001.

Due to the need for rapid progress and reconstruction, the construction sector is facing many issues. In 2000 the industry suffered an overall contraction as a result of a slump in housing. On the other hand, in 2001 new factories in the electronics, chemical and life science sectors will be constructed, so growth supporting those industries can be expected. In 2001, the construction industry is expected to bottom out and soon begin a phase of positive growth.

Construction investment in Singapore (at 2000 prices) is around 1,148.5 billion yen (\$US1 = 107.77 yen conversion rate).

Sri Lanka

The Sri Lankan government expects the construction industry to comprise about 7 to 8% of GDP over the next 10 years. This will be possible through sheer determination, effective leadership, and the continuous dialog between government decision-makers, business people and people in other industries. The Sri Lankan economy was badly affected by the Asian currency crisis that rocked East Asia. On the other hand, domestic crisis caused by the action of local terrorists has also been a major hindrance to the construction industry.

Infrastructure development is continuing in 2000. Investment is increasing to satisfy rapidly growing demand in both the private and public sectors. On the other hand, the government's investment in infrastructure was lower than expected, due to delays in starting projects and the effects of the increase in national defense spending that occurred halfway through the year. Nevertheless, over the long term, the construction industry is expected to enjoy stable and systematic growth and will grow to become an essential component of the economy.

Construction investment in Sri Lanka (at 2000 nominal prices) is around 204.6 billion yen (\$US1 = 107.77 yen conversion rate).

Vietnam

Although the economy is passing through a difficult phase at the moment, the construction and materials sectors are growing at a faster rate than the economy as a whole. Various economic agents in the construction sector are more creative in planning than ever before, which is raising the level of development and competitiveness of technical innovation. This is due to the

reemergence of an investment and construction management framework stemming from: a) clearly defined roles of the state management and private-sector production project management, and b) less direct intervention by the state in the management of private production.

On the other hand, due to years of neglect by the government, the explosive growth of the cities, duplication of functions and operations between sectors, and the confusion arising from the decentralization of administration among the local governments, urban development is plagued with many deficiencies.

Construction investment in Vietnam (at most recent 1998 nominal prices) is around 519.7 billion yen (\$US1 = 130.90 yen conversion rate).

Mongolia

Since 1996, levels of foreign investment and overseas assistance have increased, particularly investment in facilities and machinery, resulting in a rise in construction investment over the last several years. Foreign investment projects include repairs to Buyant Ukhaa airport, the repair of major power stations, highway maintenance and management, and the laying of a long-distance telecommunication cable. Mongolian government Resolution No. 13 passed on September 6th, 2000, paved the way for the establishment of a government agency to administer construction, urban development and public utility works. This was achieved through the merger of the Agency for Construction and Architecture, and the Agency for Public Utility Services. The new agency will formulate strategies and policy for construction, urban development, public utility works, building materials industry, and residential and city planning.