10th Asia Construct Conference
SUMMARY

1. Overview

1.1 Purpose and History of the Asia Construct Conference

The Euro Construct Conference has been held biannually in Europe for almost 30 years (the first conference was held in 1975). It provides 15 Western European and four Eastern European nations with an opportunity to share information about their construction economies and construction markets based on data compiled in a consistent format.

The Asia Construct Conference, which was modeled after the Euro Construct Conference, aims to promote the sharing of information on construction market trends, the structure of the construction industry, construction industry policies, and major construction projects in East and Southeast Asia. The conference was first held in Tokyo in 1995, and since then has been held annually in locations throughout Asia. While the Euro Construct Conference primarily attracts participants from private research organizations, the Asia Construct Conference tends to attract more government-affiliated institutions, due to a current lack of serious study of the construction economy by private research organizations in Asia.

The second venue for the Asia Construct Conference was South Korea, followed by Hong Kong, Japan, Singapore, Malaysia, India, and China. The ninth conference, in Australia, marked the first Asia Construct Conference held in the Oceania region. The tenth conference, in Sri Lanka, was attended by a six-member Japanese delegation from the Research Institute of Construction and Economy (led by the institute's chairman Yasuhisa Mitsui). Also attending was a representative from the International Office for Infrastructure and Economic Affairs, Policy Bureau, Ministry of Land, Infrastructure and Transport.

On the way back from the conference, the delegation also visited Singapore and had a chance to participate in an information exchange meeting and site tours, thanks to the cooperation of Secretary Shoichiro Suzuki at the Japanese Embassy as well as several Japanese companies located in Singapore.

1.2 Dates and Venue

16-17 November 2004

Bandaranaike Memorial International Conference Hall and the Hotel Galadari in Colombo, Sri Lanka

(sponsored by the Institute for Construction Training and Development (ICTAD))

1.3 Participating Organizations

Approximately 30 people from organizations in the following nine countries in the Asia-Oceania region participated.

(1) Sri Lanka: Institute for Construction Training and Development (Ministry of Housing and Construction Industry, Eastern Province Education and Irrigation Development)
(2) Japan: Research Institute of Construction and Economy (RICE)
(3) Indonesia: National Construction Services Development Board
(4) South Korea: Korean Research Institute for Human Settlements
(5) Singapore: Building and Construction Authority
(6) Australia: University of Newcastle
(7) India: Construction Industry Development Council
(8) New Zealand: Unitec New Zealand
(9) Hong Kong: Hong Kong Polytechnic University
(Hong Kong did not submit or present a report.)

There were no participants from China, Malaysia, the Philippines, Vietnam, or Mongolia.

1.4 Conference Content

Before the conference, an opening ceremony was held in the classical Sri Lankan style. Honored guests in attendance included Sri Lanka's Minister and Vice Minister of Construction, who gave congratulatory remarks.

During the conference, the participating organizations submitted their prepared country reports on

the topics listed below, and representatives spoke on the current status and future outlook of their countries' macroeconomic climate, construction economy, construction industry, and employment situation. Representatives from the local construction industry, including Sri Lanka's Chamber of Construction Industry, were also in attendance. The conference featured lively discussions and animated question-and-answer periods.
(1) Macroeconomic and Construction Industrial Review and Outlook
(2) Administration and Regulation for Construction Industry
(3) Enhancement and Development of the Construction Industry
(4) Globalization of Construction Services

At a meeting held after the conference, delegates discussed the logistics of future conferences. Indonesia and New Zealand were selected as the venues of the 11th and 12th conferences, respectively, and Hong Kong made a bid to host the 13th conference.

2. Macro economies and the Construction Industry in the Asia-Oceania Region

2.1 Macroeconomic Review

Ongoing Economic Recovery Continues

The economies of Asia have been moving steadily forward and are expected to maintain high growth rates in 2004. Powered by the recovery of the world economy (including the United States) and by China's continued economic growth, exports to meet the growing IT demand are increasing significantly. Intraregional trade (exports) in East Asia1[1] is clearly on an upward path, rising 14.9% from the previous FY 2002, 37.7% in FY 2003, and 59.4% for the first quarter of FY 2004. Likewise, intraregional trade (imports) were up 14.5% in FY 2002, 42.8% in FY 2003, and 68.3% for the first quarter of FY 2004, far and away exceeding the intraregional trade growth rates for the European Union and North America Free Trade Agreement (NAFTA) regions. Also, with exports to China in particular increasing, economic dependence on China is growing. As bilateral economic ties increase in the region, it is likely that further growth in intraregional trade will also take place.

China's economy is continuing to expand, with production up as a result of robust increases in consumption and exports. However, money tightening policies are being implemented to control fixed asset investments. While these are having some effect, the economy is still moving in a positive direction overall. This is due in part to the accelerating pace of direct investment triggered by the

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1[1] East Asia consists of Japan, China, the ASEAN nations (Indonesia, Thailand, Malaysia, and the Philippines), and the NIEs3 (Hong Kong, South Korea, and Singapore).

loosening of regulations on incoming foreign capital. Also, because of the growing desire among corporations and local governments to invest, the legal lending interest rate rose for the first time in nine years by 0.27% (annual rate).

China's economic expansion is expected to continue in 2005 and beyond, and it is presumed that the other Asian economies will continue their upward movement as well, but risk factors such as high crude oil prices, China's economic trends, IT demand, and the US economy still remain.

Table 1 Trends in Real GDP Growth Rates in the Asia-Oceania Region

Country/Area \ year	1999	2000	2001	2002	2003	2004	2005
China	7.1	8.0	7.3	8.0	9.3	9.0	7.5
Hong Kong	3.4	10.2	0.5	2.3	3.3	7.5	4.0
Taiwan	5.4	5.9	−2.2	3.5	3.2	5.6	4.1
India	6.1	4.4	5.6	4.3	8.1	6.4	6.7
Indonesia	0.8	4.9	3.4	3.7	4.5	4.8	5.0
Japan	0.9	3.0	−1.2	1.1	3.2	3.5	1.5
Korea	10.9	9.3	3.1	6.3	3.1	4.6	4.0
Malaysia	6.1	8.5	0.3	4.1	5.3	6.5	6.3
Phillipines	3.4	6.0	3.0	4.4	4.5	5.2	4.2
Singapore	6.4	10.1	−1.9	2.2	1.1	8.8	4.4
Sri Lanka	4.3	6.0	−1.4	4.0	5.9	6.0	−
Vietnam	9.0	4.4	5.5	6.5	7.2	8.0	−
Thailand	4.4	4.6	1.9	5.3	6.7	6.2	6.4
Australia	−	3.8	2.0	3.9	3.1	3.6	3.5
New Zealand	0.5	5.2	2.3	3.4	4.5	3.6	−

Source: 10th Asia Construct Conference materials (November 2004), Overseas Economic Data (compiled by the Director for Overseas Economies under the Director General for Economic Research, Cabinet Office, October 2004), Construction Economy Forecasts (RICE, November 2004).

Notes:

1. When the FY 2003 growth rate shown in the Asia Construction Conference materials differed from that given during a presentation, the values given in the presentation were used.

2. The growth rates for the Asian nations for FY 2004 and FY 2005 are estimated figures from the IMF "World Economic Outlook Update" (September 2004).

2.2 Asia's Construction Market

(China Drives Construction Investment)

The total construction investment in Asia for 2003 was valued at about US$1.896 trillion (about ¥126 trillion using the average exchange rate for 2003), accounting for 16.9% of GDP (excluding Japan), which was a higher share than in either Europe or the United States. Growth in construction investment in China has been especially remarkable. Fueled by large-scale infrastructure investments, such as expressway construction projects; supported by the increasing number of new capital investments, in factories and other facilities, accompanying the rise in exports and the expansion of the domestic economy; and with the excellent sales performance of superheated housing development investments, total social fixed asset investments2[2] in FY 2003 rose to about 5.5 trillion yuan (a year-on-year increase of 26.7%), even outpacing the 16.9% year-on-year increase reported in FY 2002. These high levels of investment (predicted at 15-20%) are expected to continue.

Although investment controls were strengthened by the government in FY 2004, because of continued urbanization and the development of China's mass consumption society, construction investment is expected to remain at high levels, even amidst fears of inflation and trends toward a real estate bubble.

Although Hong Kong, South Korea, and Singapore—the countries with the highest levels of per capita construction investment next to Japan—all experienced a fall in construction investment following the Asian financial crisis, they are now on the road to economic recovery. Nonetheless, recovery of construction investment in the three countries has been slow.

2[2] This is a generic term that refers to fixed assets constructed in a designated period of time, or the quantity of work materials purchased and other related expenses. In China, this is believed to be a comprehensive index that reflects the scale of fixed asset investments and the pace of development. It is an important basis for assessing progress on investment plans and investment effectiveness.

Table 2 Construction Investment in Asia in 2003

Country/Area	2003 GDP (100million US$)	Construction Investment (100million US$)	Construction Investment Rate to GDP(%)	Population (1,000)	Per Capita Construction Investment
China	14,166	3,211	22.7	1,298,848	247
Hong Kong	1,585	135	8.5	6,855	1,969
Taiwan	2,869	327	11.4	22,750	1,438
India	5,178	807	15.6	1,065,070	76
Indonesia	2,433	126	5.2	238,453	53
Japan	43,259	4,645	10.7	127,333	3,648
Korea	6,054	1,124	18.6	48,598	2,313
Malaysia	1,037	125	12.1	24,530	510
Phillipines	804	52	6.4	86,242	60
Singapore	915	123	13.5	4,354	2,826
Sri Lanka	162	20	12.4	19,905	101
Vietnam	390	40	10.2	82,690	48
Thailand	1,432	161	11.2	64,865	247
Summary	80,283	10,896	13.6	3,090,493	353
except Japan	37,024	6,251	16.9	2,963,160	211
Australia	4,915	-	-	19,663	-
New Zealand	826	56	6.8	4,009	1,404

Source: 10th Asia Construct Conference materials (November 2004), National Bureau of Statistics of China 2003, and the CIA World Fact Book.

Notes:

1. Construction investment figures are the most recent available, from 2000 in the Philippines, Taiwan, and Thailand, and from 1998 in Indonesia and Vietnam. Figures for China are from 2002.

2. For Malaysia, the value of construction orders received (2002) is used for the amount of construction investment.

3. Figures shown for India are estimates.

2.3 Summaries Provided by National Delegates (In Order of Presentation)

*Figures like growth rates and construction investment amounts are in real terms.

Japan

Macroeconomic Review

The Nikkei Stock Average Index, an indicator of Japan's economic climate, shows that Japan's economy fluctuated in conjunction with economic policies in the 1990s. The average stock price shows an economic retraction over the past decade.

The Koizumi Cabinet that was formed in 2001 promoted Japanese economic recovery through structural reforms, the result of which has been the restoration of corporate earnings and increased capital investments. Today, personal consumption is improving and the upward momentum of the economy is being reflected in stock prices. The structure of GDE (GDP) shows that as a result of export-supported growth in corporate production, private non-residential investment is increasing and private consumption is brisk.

Government projections for FY 2004 indicate a GDP growth rate of 3.5%. The recovery is expected to continue in FY 2005, but RICE expects GDP growth to drop to 1.3%.

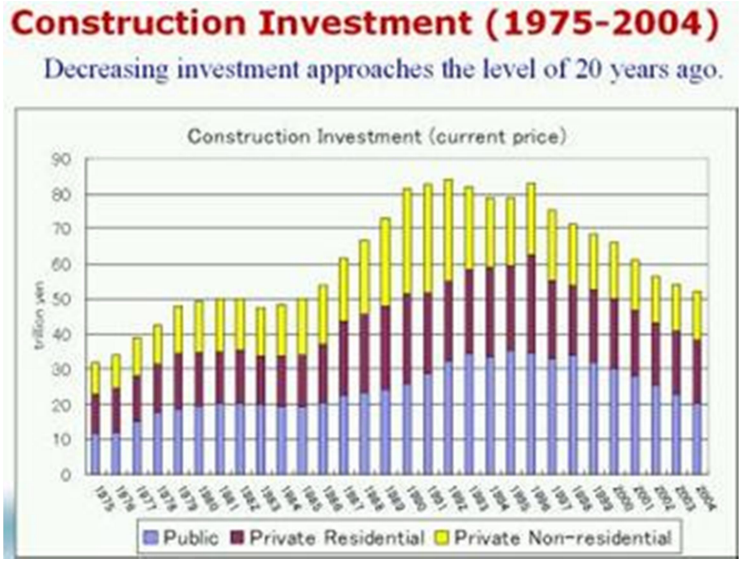
Economic and Fiscal Policies

Reduced tax revenues due to the sluggish economy and the increased issuance of government bonds are putting a significant strain on Japanese fiscal policies.

Public projects expanded in the 1990s were expected to produce economic revitalization through a trickle-down effect. Since 2000, with a fiscal crunch on national and local government budgets, structural reforms and deregulation have been implemented as radical solutions to the sluggish economy. Within this environment, focus has been concentrated on the decentralization of authority

and resources from the central government to local governments, the use of private companies, and the selective investment in strategic projects as new means of social capital development.

Construction Market



Construction investment had been rising until the mid 1990s, but today has receded to the levels reported in the 1980s. RICE's estimates suggest that construction investment for FY 2004 will fall 2.2% from the previous year. In spite of this continued decline, however, the rate of decline is expected to slow.

RICE's mid to long-term projections indicate that annual construction investment will decrease by an average of 2%, reaching the ¥47 trillion to ¥50 trillion level in FY 2010. The maintenance and repair business, on the other hand, is expected to be a growth market, with projections that it will hit ¥24 trillion by FY 2010.

As the construction market contracts, construction companies will have to change as well. The key to their survival will be their ability to create markets by improving management efficiency through IT, venturing into new fields, and adopting new formats like private financial initiative (PFI) and construction management (CM). Although the major construction companies have supplemented their efforts in the domestic market with vigorous moves to secure new orders overseas, overseas orders have dropped over the past few years from where they once were.

Indonesia

Introduction

The key issues in Indonesia are legal system strengthening, transparency assurance, fair trade, and public accountability. Structural reforms for growth and development aim to (1) promote the decentralization of power to local areas; (2) achieve the political, administrative, and fiscal independence of local governments; and (3) position the construction industry to facilitate economic

development. Economic development requires that efforts be made to develop the investment environment, and the construction industry is believed to be the key to growth and development. It is an important industry in terms of its added value, but also in terms of its employment creation potential. Productivity improvements will help Indonesia develop its ability to keep up with globalization.

Macroeconomic Review

Indonesia has a stable economy which is expected to achieve 4.2% economic growth in 2004 and 6% growth in 2005. Increased investments are anticipated due to the low interest rates of recent years. The economy is likely to experience a rapid recovery, fitting right in with the global economy.

Current Overview and Outlook for the Construction Industry

Construction projects—excluding roads, bridges, railway tracks, airports, seaports, and bus terminals—had been reduced since the 1997 economic crisis, but went on the upswing from 1999 to 2004. In 2003, construction projects were up 15% over the previous year. Under the new regime, expanded efforts toward infrastructural and public housing development are expected to boost the construction industry and employment. The latent construction market for 2004 was valued at about 30 trillion rupees (about ¥405 billion), reflecting a growth rate of 6%. Human resources are being cultivated for the development of the construction industry. The Construction Law and National Building Code ensure the maintenance of Indonesia's technological standards as well as the quality of its structures.

The adoption of policies to expand and develop the construction industry by the central and local governments can improve the productivity of the developing construction industry and contribute to their economic growth. In 1999, the government established the National Construction Services Development Board (CSDB) and began working to develop the industrial sector through industry-government partnerships. The new regime of Susilo Bambang Yudhoyono is still adhering

to the policies of the previous administration and working in collaboration with the CSDB to improve the construction industry to equip it to drive the country's economic growth. The government and CSDB hope to establish organizations that are needed by companies, engineers, and skilled workers with regard to human resource development, technological innovation, and capital cooperation. These activities are expected to ensure a level of capacity building that will allow Indonesia to compete in global economic structures like the ASEAN Framework Agreement on Services (AFAS), the ASEAN Free Trade Area (AFTA), the World Trade Organization (WTO), the General Agreement on Trade in Services (GATS), and the Asia-Pacific Economic Cooperation Conference (APEC).

South Korea

Macroeconomic Review

South Korea had overcome the 1998 currency crisis and broken away from the low growth caused by the global economic recession, but relapsed in 2003 with a real GDP growth rate of 3.1%. Although the global economy has begun to break out of its stagnant state, which has lasted for three years, the South Korean economy has been unable to ride the tide of that trend due to the cooling of personal consumption and capital investment, and low growth capability due to reduced investments.

Current Overview and Trends in the Construction Industry

As a result of the action plan for recovery that the government has been implementing since 1999, South Korea's construction market has been showing signs of recovery. The construction investment growth rate rebounded in 2002 to its 1997 pre-financial crisis levels. Unlike other industries, the construction industry is experiencing dramatic growth, with a construction investment growth rate of 7.6% in 2003. This is attributed to increased private

construction, which is being sustained by an upward trend in the residential sector, and increased construction of roads and ports by the national government. Since October 2003, the South Korean government has been implementing policies to maintain housing price stability in the capital region in an effort to prevent the occurrence of a real estate bubble. This has caused a slump in the real estate market and has had a negative impact on the construction economy. The construction investment growth rate for 2004 is expected to fall to 1.2%.

Because of increasing government expenditures in welfare and new knowledge industries, there is an increasing need for private investment in the development of social capital to lighten the load on the government. Recognizing this, the South Korean government is implementing a 10-year plan for private participation in infrastructure (PPI) aimed at revitalizing PPI to induce expanded social capital development using private capital.

The government is also currently promoting a registration system for contractors in the construction business. Under the revised law of 1996, constructors have to register as either a general constructor or a specialty constructor. General constructors must register with the Ministry of Construction and Transportation (MOCT), while specialty constructors must register with their local governments. To register, constructors have to fulfill certain conditions regarding technological capabilities, capital, and facilities/equipment. This allows those who place orders for construction to select the appropriate constructor for the job.

Singapore

Macroeconomic Review

Singapore's economy has remained stagnant for the past three years largely as a result of the slowdown in the domestic economy and influences from overseas. The former reflects a slump in the IT sector, which accounts for about 10% of GDP. The latter is a matter of international terrorism—in particular the bombings on Bali—and the drop in air travel and tourism due to the rampant outbreaks of SARS in China, Hong Kong, and Singapore. As a result of these various factors, the economy has remained sluggish since 2001.

However, there are optimistic forecasts for a 7-9% growth in 2004. With a US economic recovery in clear view, Singapore's IT industry is also regaining its health. Also, since global petroleum refinery facilities are concentrated in Singapore, crude oil price jumps are contributing to economic revitalization. Consumer goods prices have remained at low levels for the past three years, but these are expected to increase along with rising crude oil prices, transportation costs, and materials costs. Interest rates are likewise expected to go up. A comparison of GDP growth and construction industry growth trends shows about a year-and-a-half lag in the time that changes in the economic climate were reflected in the construction industry. Thus, the construction industry is expected to recover in 2005.

Construction Industry Outlook

The construction industry accounted for as much as 12% of GDP up until the 1980s, but then lost ground, falling to 9%, in the 1990s. This loss of market share has continued since 1998, hitting 5% in 2004. The construction industry's share of GDP in the United Kingdom and the United States is about 4-5%, as is characteristic of developed nations. The annual value of contracts was S$2.5 billion in 1997, but has been stuck at about the S$1.0 billion level for the past two years. This figure is expected to rise to S$1.3-1.5 billion in the future.

A breakdown for FY 2004 shows that the public civil engineering project sector accounts for about 25% of all construction projects thanks to large-scale infrastructure projects like the MRT. Furthermore, massive investments are expected to continue for the next two to three years. On the other hand, the share of contracts in the public housing sector, which has typically accounted for at least 25% of construction investment, has fallen dramatically, and residential investment has fallen from S$500 million to S$100 million due to the reduction in housing demand caused by the sluggish economy. Because the growth of many constructors has centered on housing, this trend is expected to have a serious impact on the industry. Following the trend in construction demand, construction materials prices are also falling. Major construction materials prices have fallen sharply since 1999, when public housing investment especially cooled. They began to rise again in 2003, however, due to the shortage of steel for China's special procurements, and are still on the upswing today.

Various Policies

In light of the economic downturn from 1992 to 1996, the Singaporean government has undertaken some systemic reforms to promote the construction industry, introducing technologies from South Korea for site management and labor force training from the very beginning. Recognizing that

construction is an important industry that accounts for 12% of GDP, the government is concerned about the industry's effect on the domestic economy. Because Singapore relies on foreign workers from countries like China, India, Indonesia, and Bangladesh for 80% of its construction labor force, labor productivity continues to be a significant challenge.

To make the construction industry more productive, "buildability" is being promoted through the training of workers in the extensive use of prefabricated materials. The three principles of buildability are (1) standardization, (2) simplicity, and (3) single integrated elements. Materials are manufactured by machine at construction sites, just as they would be at a factory, and meet the same quality standards. According to a new law issued on 1 January 2001, submitted designs will not be approved for construction unless they score a certain number of buildability points. Also, the Construction Quality Assessment System (CONQUAS), which gauges the workmanship of completed projects, has been introduced as a system for evaluating public projects. CONQUAS covers architectural work, construction work, and machinery/electrical work, and is making significant contributions to improving quality and workers' skills.

Australia

Macroeconomic Review

	2001-02	2002-03	2003-04	2004-05#
GDP Growth rate *	3.9	3.1	3.6	3.5
GDP at Real Prices (m) *	733,647	756,170	783,593	-
Labour-force Growth Rate	1.1	1.9	2.4	1.75
Unemployment	6.8	6.3	5.6	5.75
Inflation	2.8	2.7	2.5	2

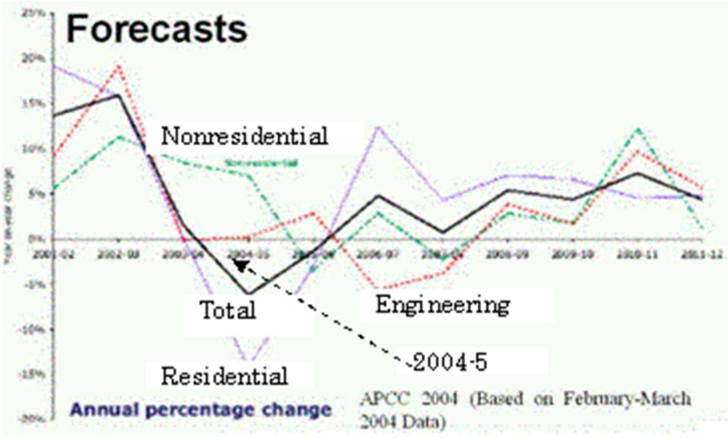
*2002-03 Base # Forecast

Australia's economy is doing well and is expected to continue to do so in the future. Estimates indicate a 2004 GDP growth rate of 3.6% and a rate of inflation of 2.5%.

There has been a slight pause in asset price increases, including the much-worried-about housing prices, prompting predictions of a soft landing. The state of fiscal expenditures is good and the nation has strong economic fundamentals. FTA negotiations with various countries are being actively promoted with the aim of improving market flexibility.

With low interest rates and a low inflation rate, the economic future is looking bright. Australia is pursuing a target GDP growth rate of 3.5% for 2005 and a target inflation rate of 2.5%. However, these will require exchange rate stability with other world economies and the maintenance of low interest rates, and thus cannot be taken for granted.

Construction Market



Although Australia is comprised of six states and two territories, the construction market is largely concentrated in New South Wales, Victoria, and Queensland. There are 194,000 companies involved in the construction industry, 98.8% of which are small enterprises with 20 or fewer employees. Nonetheless, 36,000 general contractors produce 56% of the total earnings.

Australia's key industries are manufacturing and services, with the construction industry accounting for 6.18% of GDP. A breakdown of construction activities shows that the housing supply market is strong, as fixed assets versus the previous year are up 11.8% in non-residential construction, 8.1% in civil engineering construction, and 10.3% in residential construction for 2003. As a result of the abundant supply of housing in Sydney and Melbourne, the rate of increase in housing prices has fallen to the 5% level.

The number of completed projects and project launches show that there was an especially large number of housing projects in 2001-02, but that housing starts have fallen dramatically more recently. Long-term estimates indicate that construction production overall will fall temporarily in 2004-05 by 6% from the previous year, but it is expected to rebound.

Construction Industry

As announced by the Cole's Royal Commission, various efforts have been made to improve Australia's construction industry, but they have not yielded any promising results. In the future, the industry needs to introduce innovations in structures and customs, and new contractual or risk-sharing systems.

New Zealand

New Zealand's economy has been moving steadily

	1999	2000	2001	2002	2003	2004
GDP and Components						
GDP at real prices (1995/1996 base year) NZ$(million)	97,833	102,885	105,247	108,845	113,786	117,933
GDP at current market prices NZ$(million)	102,465	108,570	114,838	124,109	129,124	137,173
GDP growth (%) at real prices	0.5	5.2	2.3	3.4	4.5	3.6
Agriculture % growth	-5.3	5.2	4.1	2.8	0.3	4.8
Forestry, Fishing and Mining % growth	2.3	5.2	0.9	2.4	-0.2	-6.8
Manufacturing % growth	-2	6.7	1.9	1.3	5.1	2.6
Construction sector % growth	-8	16.6	-8.2	1.9	16.6	9.5

forward for the past three years, but the real GDP growth rate fell slightly from 4.5% in 2003 to 3.6% in 2004. However, in light of the favorable economic conditions, interest rates rose to relatively high levels in 2004 and the NZ dollar rose significantly against the US dollar. The employment rate rose 2.3% and the unemployment rate fell, remaining at nearly 4%. Amidst these favorable economic conditions, the highest growth rates were reported in the construction sector, an achievement attributed to the active infrastructural development of roads, transportation facilities, and the social infrastructure.

Residential projects account for a large share of the construction sector, but non-residential construction is now increasing more than residential. The number of construction licenses for houses is on a declining trend, and it would be difficult to imagine an increase in housing construction. With residential construction contracting, there is no shortage of construction labor. Even if these conditions create excess labor capacity, it will likely be absorbed by the non-residential construction sector.

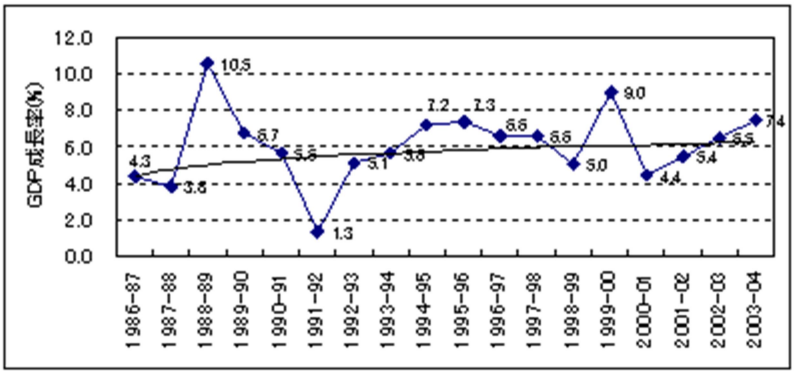
The government just significantly strengthened regulations for the construction industry. As part of this effort, it enacted a law (Construction Contracts Act 2003) on contract terms and short-term arrangements, and is addressing the issue of problems caused by moisture in buildings. In July 2004, a new law (Building Act 2004) established the Department of Housing and Building. Revisions to the Building Act require constructors to obtain licenses that have heretofore been unnecessary. Because it takes five years for a license to be issued, constructors will not be able to obtain licenses until 2009. This may be disadvantageous in terms of training and certification, potentially leading to a shortage of certified personnel. To address this problem, efforts are being made to promote the development of a system in which workers can efficiently obtain certifications relating to both practicing and regulating the industry.

India

Macroeconomic Climate

India's economy includes traditional village agriculture, modern agriculture, handicraft industries, and many other supporting industries. It is built on the self-sufficiency of agriculture, abundant mineral and natural resources, a location that offers easy access to South Asian

Trends in GDP growth rate



* The figures were calculated on a year-on-year basis (in real terms).

markets, and open-door policies to imports and exports. The country has achieved stable economic growth for more than 50 years and is the fifth strongest economy in the world in terms of purchasing power parity. In recent years, the Indian economy has remained on a path of growth while implementing reforms and restoration efforts, in spite of ongoing terrorist threats and inflation. The government's Planning Commission has set a target for the average annual GDP growth rate for the next decade of 7.4%. Social capital development growth will be a key factor in achieving this goal.

Construction Industry Outlook

In the private airline industry, the number of passengers is expected to rise 12.5% on domestic routes and 7% on international routes over the next 10 years, while cargo shipments are expected to increase 4.5% on domestic routes and 12% on international routes. To meet this demand, the Airports Authority of India (AAI) is pouring its efforts into the development of existing airports rather than the construction of new ones. It has developed a model airport outfitted with new equipment for implementation in 12 cities at an investment of US$125.7 million and is developing plans to invest US$1.1 billion in the expansion of air space management and airport infrastructure.

In the ports sector, an investment valued at US$7.3 billion needs to be made to accommodate 350 million tons of cargo by 2005-06.

In the roads sector, an investment of US$33.7 billion is expected to become necessary in 2005-06. These investments will be covered by budget funds and multinational and bilateral institutions, as well as by the active involvement of the private sector.

The Indian government welcomes third-sector participation in waterworks and sewerage projects, public transportation facilities, urban planning, housing, roads, bridges, and other projects pertaining to the urban infrastructure. It is committed to providing support in the form of capital participation, a series of incentives, dedicated levies to repay loans, and transparent regulatory measures.

Through liberalization measures taken under the WTO, the government has introduced fundamental reforms to existing systems in the areas of law, contracts, and corporate conventions. Recognizing the inability of the public sector to handle the challenges brought about by the internationalization of business, investment hikes in state-owned enterprises and public corporations have accelerated. State monopolistic enterprises, like the electric power supplier, have been corporatized. Public projects are rapidly being placed under the management of the private sector. Even in fields like self defense, which is treated as highly classified, doors are gradually being opened to the private sector.

Sri Lanka

Macroeconomic Review

The GDP growth rate was 4.0% in 2002 and rose further to 5.9% in 2003. This is attributed to an inflation rate that has remained low for an extended period and the positive market influence of the 2001 introduction of the floating exchange rate system. Most industrial sectors, including construction, have contributed to this economic growth.

In financial matters, expenditure cuts have made it possible for the government to keep the fiscal deficit to 8% of GDP, in spite of revenue shortages. The simultaneous improvement in the fiscal health of both the private and government sectors has led to the current growth.

Construction Market

Construction is positioned as an important industry that plays two key roles: protecting the homeland and private citizens and creating a base for economic activity. Thus, to promote the development of the state, the government is advancing policies that give construction activities greater direction, consistency, and efficiency. Specifically, it is engaging in the following legal and institutional developments:

- continuously striving to improve quality and productivity
- developing ties with other industrial sectors and related industries, and striving to use resources effectively
- taking into consideration attractive landscapes and the environment
- making effective use of financial institutions and transferred technologies
- introducing a licensing system for the construction industry that is in line with the financial and other industries
- introducing a licensing and guarantee system for construction workers

Investment Opportunities in Sri Lanka

Investments into Sri Lanka, including domestic development projects as well as foreign direct investment, are handled by the Board of Investment. Projects funded entirely by foreign capital are recognized in most regions, and there are no restrictions on sending capital or profits to the home country of the investor. The stability of foreign capital is also protected by law.

As an example from the residential construction sector, a shortage of 500,000 housing units is expected in 2005. Based on the megalopolis plan in the western region, 900,000 units will be needed by 2030. Housing construction projects have already been launched in Colombo and increased investment opportunities are expected.

Housing Projects by Project Status (Approved under Sec. 17 of the BOI Law)

Present Status	No. of Projects	No. of Units	Estimated Investment (Rs. Mn.)			Employment at Capacity (Nos.)
			Foreign	Local	Total	
Approved/Awaiting Agreement	51	4,947	16,188.5	12,694.7	28,883.2	3,963
Awaiting Implementation	23	101,152	10,877.4	9,532.4	20,409.8	4,687
Awaiting Commercial Operation	32	6,650	10,881.7	10,111.5	20,993.2	4,901
In Commercial Operation	25	8,256	4,431.0	14,310.3	18,741.3	8,212
Total	131	121,005	42,378.6	46,648.9	89,027.5	21,763

Source : Research & Documentation Dept/ Board of Investment of Sri Lanka

3. Information Exchange Meeting with Japanese Companies in Singapore

On their return trip, the Japanese delegation visited Singapore to attend an information exchange meeting arranged in cooperation with the Japanese Embassy in Singapore. The meeting was attended by the following companies: Obayashi Corporation, Kajima Corporation, Giken Seisakusho, Kurihara Kogyo, Penta-Ocean Construction, Sato Kogyo, Shimizu Corporation, Taisei Corporation, Takenaka Corporation, Nishimatsu Construction.3[3]

RICE explained the current status and long-term prospects for the Japanese construction market based on the country report submitted for the Asia Construct Conference, and received an

3[3] We invited the main companies in the Singapore Chamber of Commerce and Industry Construction Division and companies that had dispatched employees to RICE to participate. They are listed in the order of the Japanese syllabary.

explanation of the trends in the Singaporean construction market and construction industry from each of the participating companies.

Market Trends

- Many construction projects in Asia are in Thailand and Singapore. There are a lot of public projects, but the competition is heating up.

- The size of Singapore's market: S$24.0 billion was invested in 1994, but that figure had fallen to S$10.0 billion by 2000. Investments will be at about that same level in 2004, but may rebound slightly next year. The national government is trying to leverage public works projects, but the next large project is not set to launch for another three years. Until recently, the ratio of public to private projects was about seven to three, but private projects are increasing. A lot of private residential construction will begin in the latter half of 2004.

Trends in the Construction Industry

Many construction workers in Singapore come from other countries. These were once primarily Malaysian and Taiwanese laborers, but today an increasing number of workers come from Sri Lanka and Bangladesh.
To combat unemployment, the national government has a policy that requires companies to employ a certain percentage of Singaporeans, but there is a movement underway to change that.

Changes in Industry Due to Market Contraction

a. Some companies have gone out of business due to the intensity of market competition. The ratio of local to foreign companies is seven to three, but with the number of public housing units ordered by the Housing and Development Board decreasing, small and medium-sized enterprising are having an especially tough time.

b. Because of falling margins on recent construction projects, subcontractors are inevitably being assessed more stringently. However, using the cheapest subcontractor is not always conducive to maintaining quality. The problem is finding a balance.
Because some companies are facing the possibility of bankruptcy, many companies are linking up with others in a cooperative corporate format, as is done in Japan.

Japan's International Competitiveness

We have reached a difficult stage in which evaluations have to be made, not on cost alone but on other relevant factors as well. Contracts cannot be awarded as they have been in the past. Instead, efforts must be made to distinguish between companies based on their technologies and quality. Also, it takes more than just a Japanese branch office for business operations to run smoothly overseas. True localization is required.

Finally, we would like to take this opportunity to express our sincere condolences to everyone in those countries affected by the recent Sumatra earthquake and tsunamis, and send our best wishes for a speedy recovery.