



TURKISH INDUSTRY AND BUSINESS ASSOCIATION

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``Report on China's Construction Market``

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Overview on the status of China's Construction Market

The construction market is strongly related to fixed asset investment (FAI). From 2003 to 2006, FAI growth rate reached more than 24% and at the same time the growth rate of Construction and installation industry remained at 25%. As China's total investment in fixed assets basically determines the size of the construction projects markets, output value and profit growth of construction market was also around 20%. In 2006, the output value of China's construction industry reached 4.09755 trillion RMB, up by 18.59% year-on-year. Total profit reached 107.1 billion RMB, up by 18% year-on-year. In 2007, output value reached 5.001862 trillion RMB, up by 20.4% year-on-year. Total profit reached 156.11 billion RMB, up by 30.9% year-on-year. But given the global financial crisis, it is a rough year for China's construction market in 2008. Thanks to the China's 4 trillion stimulus package and its active financial policies, there were 293412 new projects started in 2008, and 402204 projects being on construction which were invested 37586 billion RMB by the state. China's construction market created a value of 6.114 trillion RMB in 2008.

With respect to contracting projects, China has been made great progress in recent years. A large number of world-renowned construction projects have been put into operation, such as the Three Gorges Project, the Xiaolangdi Hydro-Electric Engineering Project in the Yellow River, transport the natural gas from the West to the East and Shanghai maglev rail transit project, South-to-North water diversion project, the Qinghai-Tibet railway. Some projects are under construction, such as west-east power transmission, Beijing-Shanghai high-speed railway and other projects. The development and construction of these projects have led to the rapid development of construction market. Besides, some other projects including energy, transportation, communications, water conservancy, urban infrastructure, environmental reform, urban commercial centre, housing, satellite cities development and construction of small towns, etc. also facilitate the prosperous of China's construction market.

➤ **The types of constructing enterprises in China and their labour absorbing ability**

By the end of 2008, there were 227,000 corporate firms, employing more than 39.011 million people; the self-employed households with credentials are over 264,000, employing 1.999 million people. Among corporate firms, there are 9,000 state-owned enterprises and state-owned sole proprietorship, accounting for 3.8% of the corporate firms; there are 10,000 collective enterprises, accounting for 4.5%; 153,000 private enterprises, accounting for 67.6%; 1,000 Hong Kong, Macao and Taiwan invested enterprises, accounting for 0.4% and 1,000 foreign-invested enterprises,

accounting for 0.4%. The enterprises in other types are over 53,000, accounting for 23.4%. Construction industry absorbs large number of labour force. By the end of 2008, the employees in construction industry are more than 41 million. 12.7% of the employees are in state-owned enterprises and state-owned sole proprietorship, 6.7% are in collective enterprises, 37.0% are in private enterprises, 34.6% are in other limited liability companies and the remaining 9.1% are in other types of enterprises.



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➤ **The output value created by corporate enterprises involved in Constructing Business in China in 2008**

In 2008, the output value of corporate firms in construction sector was over 6.88417 trillion RMB. Among them, the output value of enterprises with qualification was 6.27853 trillion RMB and only 605.64 billion RMB for the enterprises without qualification. The output value of housing and civil engineering accounted for 83.7% of the total value; construction and installation industry accounted for 9.2%; architectural decoration accounted for 4.6% and other construction related industry accounted for 2.4%.

➤ **Revenue gained by corporate enterprises involved in constructing business in China in 2008**

In 2008, the total revenue of China's general contracting and professional contracting construction projects gained by corporate enterprises was 5.97179 trillion RMB, of which housing and civil engineering construction accounted for 86.3%, construction and installation accounted for 8.5%, architectural decoration accounted for 3.6% and other construction accounted for 1.6%. The total profit was 220.18 billion RMB, of which, housing and civil engineering construction accounted for 81.6%, construction and installation accounted for 12.3%, construction decoration industry accounted for 3.9% and other construction industry accounted for 2.2%.¹

➤ **Productivity of construction enterprises**

The productivity of construction enterprises is calculated according to the gross output of the construction industry was

RMB166, 538 per capita in 2008, a rise of 12.4% year-on-year, almost the same as that in 2007. With respect to state-owned or state-holding enterprises, their productivity was RMB 232,572 per capita, up by 13.5% with the growth rate slowed down by 2.2% over the previous year. Their profits reached RMB175.6bn, RMB19.5 billion more than that in 2007, or a rise of 12.5% with the growth rate slowed down by 18.3%. Their tax contributions reached RMB 205.8bn, RMB 34.3bn more than that in 2007, or a rise of 20% with the growth rate down by 2.3% over the previous year.

Overview on foreign investment in China's Construction Market

➤ **Foreign capital in China**

According to China Statistical Yearbook on Construction, in 2008, construction industry attracted 262 foreign direct investment projects, involving US\$1,092 million, increased 1.18% more than 2007.

Given restrictions on foreign investment in constructions in China, the overseas investors are mostly involved in the following categories: projects with loan from the World Bank, big industrial projects with direct foreign investment, the ones of luxurious building with direct foreign investment, the ones with investment from Japanese or Korean non-governmental organizations, the ones whose owner and contractor have a special fixed cooperation because of intelligence security and the ones utilizing advanced imported technology or equipments.

According to the statistics of MOFCOM, 213 foreign investment projects in Construction industry were newly set up in 2008, 44 less than that of the same period in the last year, and the amount of the actual utilized foreign capital reached USD 935,780,000, up by 142.66% year-on-year. The number of newly established foreign invested enterprises and the amount of the

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<http://www.zgjzy.org/guild/sites/ccia/detail.asp?i=HYDT&id=23040>

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actual utilized foreign capital accounted for 0.77% and 1.01% of the national total number or amount of foreign capital absorption in the Construction industry during the same period.

According to the source of foreign capital, calculated by the amount of the actual utilized foreign capital, in 2008, countries or regions: Hong Kong, United Kingdom, Cayman Is, Br. Virgin Is, Taiwan province ranked No.1 to No. 5 in the Construction industry regarding the amount of FDI, accounting for 53.47%, 21.16%, 8.55%, 7.93%, 1.62% of the total amount of the actual utilized foreign capital of the industry separately.

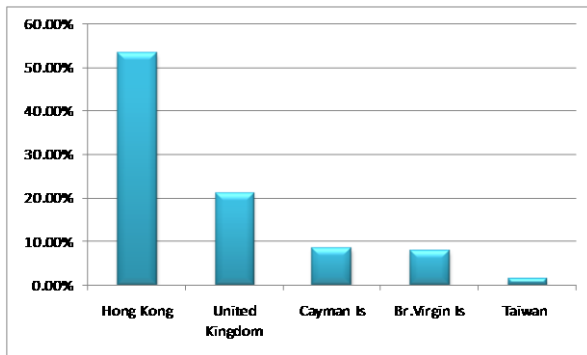


Figure 1: Main Source of FDI of the Construction Industry in 2008

In Construction industry in 2008, ten Asian countries/regions (Hong Kong, Macau, Taiwan, Japan, Philippines, Thailand, Malaysia, Singapore, Indonesia and Korea) newly set up 181 enterprises in China, down by 15.42% year-on-year and the actual utilized foreign capital was USD 549,040,000, up by 92.31% year-on-year. The number of the newly established enterprises and the actual utilized foreign capital accounted for 84.98% and 58.67% of the national total number or amount of foreign capital absorption in the same period.

The EU newly set up 9 enterprises in China, 28.57 more than that of the same period last year; the actual utilized foreign capital reached USD 199,670,000, up by

2200.35% year-on-year. The number of the newly established enterprises and the amount of the actual utilized capital accounted for 4.23% and 21.34% of the national total number or amount of foreign capital absorption in the same period.

The US newly set up 4 enterprises in China, down by 60% year-on-year; the actual utilized foreign capital reached USD 1,510,000, down by 79.29% year-on-year. The number of the newly established enterprises and the amount of the actual utilized capital accounted for 1.88% and 0.16% of the national total number or amount of foreign capital absorption in the same period.

According to regional foreign capital absorption, 165 foreign-invested Construction enterprises were newly set up in the Eastern area, with actual utilized foreign capital of USD 824,580,000, accounting for 62.98% and 75.47% of the national total number or amount of foreign capital absorption in the same period. In the Eastern area, Tianjin, Jiangsu Province and Guangdong Province ranked among the tops with respect to actual utilized foreign capital, in Tianjin 7, Jiangsu Province 55 and Guangdong Province 43 newly established foreign-invested enterprises separately, with the actual utilized foreign capital of USD 298,230,000, USD 265,470,000 and USD 168,500,000, accounting for 27.3%, 24.3% and 15.42% of the total amount of the actual utilized capital of the industry in the Eastern area separately.

34 foreign-invested Construction enterprises were newly set up in the Central region, with actual utilized foreign capital of USD 101,440,000, accounting for 12.98% and 9.28% of the national total number or amount of foreign capital absorption in the same period. In the Central region, Henan Province, Jiangxi Province and Hunan Province ranked among the tops with respect to actual utilized foreign capital, in Henan 1, Jiangxi Province 9 and Hunan 10

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newly established foreign-invested enterprises separately, with the actual utilized foreign capital of USD 80,100,000, USD 14,390,000 and USD 4,440,000, accounting for 7.33%, 1.32% and 0.41% of the total amount of the actual utilized capital of the industry in the Central region separately.

14 foreign-invested Construction enterprises were newly set up in the Western area, with actual utilized foreign capital of USD 9,760,000, accounting for 5.34% and 0.89% of the national total number or amount of foreign capital absorption in the same period. Yunnan Province, Chongqing and Sichuan Province ranked among the tops with respect to actual utilized foreign capital, had 4, 1 and 6 newly established foreign-invested enterprises separately, with the actual utilized foreign capital of USD 6,430,000, USD 2,530,000 and USD 800,000, accounting for 0.59%, 0.23% and 0.07% of the total amount of the actual utilized capital of the industry in the Western area separately.

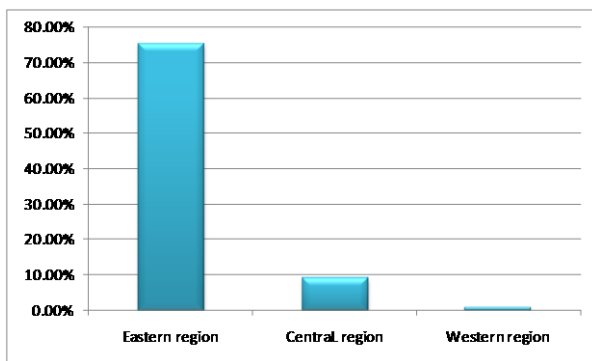


Figure 2: Regional Foreign Investment Distribution (by Regional FDI Inflow) of the Construction Industry in 2008

According to utilizing manners of the foreign capital, newly established projects of Construction industry in 2008 are as follows: 43 Chinese-foreign equity joint venture projects, 4 wholly foreign-invested projects, 166 Chinese-foreign contractual joint

venture projects, The amount of the actual utilized foreign capital reached USD 98,130,000 、 USD 35,840,000 and USD 801,810,000 separately.

➤ Regulations towards foreign investors

Any foreign contractors wishing to enter China's construction market must be approved by The Ministry of Construction (MC), which was established at the end of the eighties to take the lead role in implementing the new strategies for developing the industry, and concerned municipalities. Up to 2008, MC and municipal governments have given licenses to 363 foreign contractors.

Also the legal regulations issued by MC restrict the categories of foreign investments in constructions as following:

- Construction projects totally sponsored by foreign investment and foreign donations;
- Construction projects financed by international financial firms through international bidding process in accordance with loan-related rules;
- Construction projects for which the foreign investment occupies as much as or more than half of the total capital; or when the foreign investment occupies less than a half, but there are technical problems that are unable to be independently solved by Chinese construction enterprises, foreign investors can do the business with approval issued by municipal offices.
- Construction projects sponsored by China, but with regard to technical problems that are unable to be independently solved by Chinese construction enterprises, foreign investors can do the business with approval issued by municipal offices.²

² <Regulations on Administration of Foreign-Invested Construction Enterprises>



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➤ **Major Risks for foreign investors**

Because of different social and economic systems, as well as different historical and cultural backgrounds, foreign contractors are likely to encounter some risks in Chinese market. Those risks may be categorized as management risk, policy risk, technical risk and market risk.

Management risk: Overseas businesses usually tend to find their partners from large state-owned companies. However, it should be noted that large state-owned companies often have a complicated and bureaucratic system, and their top managers are often appointed by the government.

Policy risk: In China many provisional policies and regulations are issued by both the central and local governments. The variations in policies and regulations can have significant impact on foreign businesses.

Technical risk: A typical technical risk associated with foreign enterprises in China is considered due to the partners' different technological practices, which can bring considerable losses if coordination is lacking between the partners.

Market risk: Local protectionism is also presented as a major market risk. A significant number of domestic construction organizations are state-owned, belonging to either central or local governmental departments that supervise and at the same time protect these organizations.

Positive factors influencing the development of construction market

➤ **Investment in fixed assets will continue to maintain a high level.**

Investment contributes a lot in China's economy and with the implementation of 4 trillion RMB stimulus package, a large amount of capital will flow to the infrastructure construction, thus creating

larger market size for construction market. The scale of China's railway investment in 2010 will hit new record. The planned investment in fixed assets is 823.5 billion RMB in 2010, of which 700 billion RMB is invested in infrastructure construction.³

➤ **Developing space of construction industry in the western and north-eastern region markets is growing.**

In recent years, real estate market has been overheated and housing prices artificially high. It is inevitable that the house price will experience a rational downturn in future while in the western and north-eastern region, there is still room for the growth due to the original base price is relatively low.

➤ **Foreign capital transfer from first-tier cities to second-tier cities: bringing about opportunities for construction companies.**

Multinational enterprises are more active in cities like Beijing, Shanghai, Wuxi, Hangzhou, Chongqing and Wuhan. Now that land prices apart from other industrial products have been rising in these cities, foreign investors are more willing to move to second-tier cities. It is a fact that many foreign-funded enterprises set regional headquarters in Beijing, Shanghai and other major cities and open factories in second-tier cities which are lower-cost comparatively. The reason is low land price, low wages and tax concessions. This shows that China's construction enterprises should also adopt similar strategy, concentrating on first-line market opportunities and paying close attention to second-tier cities. Once the enterprises move out of first-tier cities, they need to build factories, office buildings and dormitories. These are all the opportunities for the construction companies.

³<http://www.zgjzy.org/guild/sites/ccia/detail.asp?i=HYDT&id=23422>



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- **Huge market post-disaster reconstruction**
The post-disaster reconstruction for Sichuan is a large market.
- **To speed up the process of urbanization**
Now China is speeding up the process of urbanization and this will lead to a large number of construction projects.

The prospects of China's Construction Market

According to a forecast by Global Construction Perspectives and Oxford Economics, China will overtake the United States as the world's largest construction market by 2018, and in just 10 years, China's construction market will be worth almost 2.4 trillion U.S. dollar and represent 19.1 percent of global construction output.

The forecast also mentioned that from 2009 to 2020, only Nigeria and India will enjoy higher growth rates than China in their construction output. Despite India's continued construction boom, China's market will still be between three and four times larger than India's at the end of the next decade.

According to the analyses above we can see China's Construction Market is booming and create large number of business opportunities. However, for foreign investors, the risks should always be kept in mind. Doing due diligence and making clear of the policy\law and cultural environment before entering construction market in China, foreign investors will benefit a lot in this field.



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