

## China Construction Industry Overview 2011

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### Headquarters

Meşrutiyet Caddesi,  
No: 46 Tepebaşı 34420  
İstanbul – Turkey  
T +90 (212) 249 19 29  
F +90 (212) 249 13 50  
E tusiad@tusiad.org

### Ankara

İran Caddesi, No: 39/4  
Gaziosmanpaşa 06700  
Ankara – Turkey  
T +90 (312) 468 10 11  
F +90 (312) 428 86 76  
E ankoffice@tusiad.org

### Brussels

13, Avenue des Gaulois, 1040  
Brussels – Belgium  
T +32 (2) 736 40 47  
F +32 (2) 736 3993  
E bxloffice@tusiad.org

### Washington D.C.

1250 24th Street,  
N.W. Suite Nr. 300,  
Washington D.C. 20037 USA  
T +1 (202) 776 77 70  
F +1 (202) 776 77 71  
E usoffice@tusiad.us

### Berlin

Märkisches Ufer, 28  
Berlin 10179 Germany  
T +49 (30) 288 786 300  
F +49(30) 288 786 399  
E berlinoffice@tusiad.org

### Paris

33, Rue de Galilée 75116  
Paris – France  
T +33 (1) 44 43 55 35  
F +33 (1) 44 43 55 46  
E parisoffice@tusiad.org

### Beijing

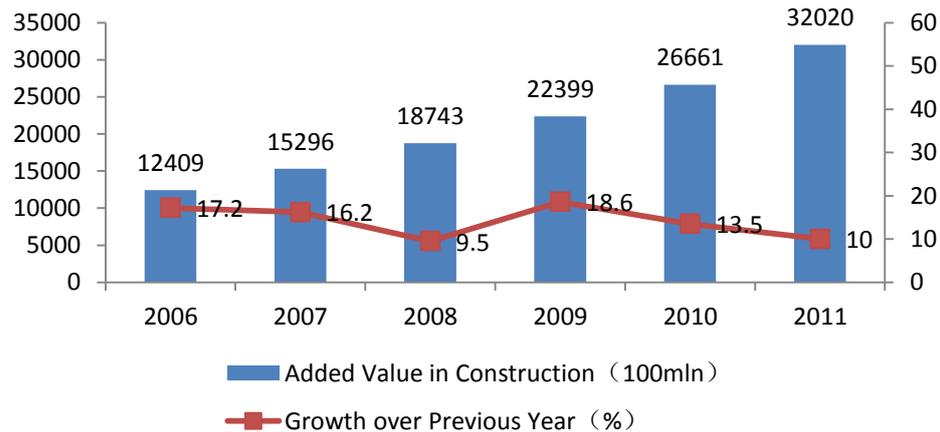
Beijing Lufthansa Centre,  
Office C-319, Beijing 100016  
P. R. China  
T +86 (10) 6462 2066  
F +86 (10) 6462 2067  
E tusiad.china@euccc.com.cn

[www.tusiad.org](http://www.tusiad.org)

### 2011 Data of Construction sector:

In 2011, corporate firms in construction sector's combined output value was 3202.2 billion yuan, up by 10% year-on-year; the actual revenue by qualified general contracting and professional contracting construction enterprises was 424.1 billion yuan, up by 24.4% year-on-year, in which 117.2 billion yuan, was contributed by state-owned and state holding corporations which is up by 36.0% year-on-year. By the end of 2011 the total output value of construction enterprises amounted to 11.77 trillion yuan, up by 22.6% year-on-year, including 10.49 trillion from construction projects and 0.96 trillion yuan from installation projects.

**Added Value and Growth on Construction Sector in China  
2006-2011 (100 mln yuan)**

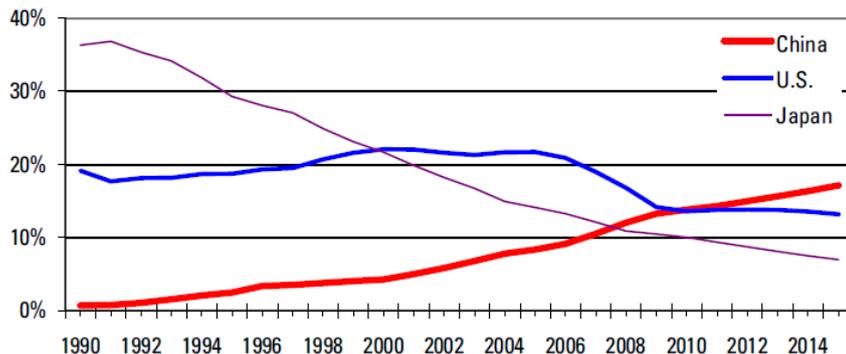


Resource: National Bureau of Statistics of China

By the end of 2011, there were 70414 construction enterprises, employing 43.11 million people. Among construction enterprises, there were 4810 state-owned enterprises, 5026 collective-owned enterprises, 331 were foreign funded. The enterprises in other types were 61280.

### CHINA'S SHARE OF GLOBAL CONSTRUCTION SPENDING

(Percent share of global construction spending)



Source: IHS Global Insight Construction Service

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Ankara – Turkey  
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F +90 (312) 428 86 76  
E ankoffice@tusiad.org

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F +32 (2) 736 3993  
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T +1 (202) 776 77 70  
F +1 (202) 776 77 71  
E usoffice@tusiad.us

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Berlin 10179 Germany  
T +49 (30) 288 786 300  
F +49(30) 288 786 399  
E berlinoffice@tusiad.org

**Paris**

33, Rue de Galilée 75116  
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T +33 (1) 44 43 55 35  
F +33 (1) 44 43 55 46  
E parisoffice@tusiad.org

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Office C-319, Beijing 100016  
P. R. China  
T +86 (10) 6462 2066  
F +86 (10) 6462 2067  
E tusiad.china@euccc.com.cn

## 2011 Investment in Fixed Assets:

In 2011, the investment in fixed assets (excluding rural households) reached 30,193.3 billion yuan, up by 23.8% compared to 2010.

In 2011, the investment in primary industry, secondary industry and the tertiary industry was 679.2, 13,226.3 and 16,287.7 billion yuan respectively which went up by 25%, 27.3% and 21.1% over last year. In 2011, the investment in industry reached 12,901.1 billion yuan, an increase of 26%; in which the investment in mining, manufacturing, production and supply of electric power and heat power was 1,181, 10,259.4 and 1,460.7 billion yuan respectively and rose by 21.4%, 31.8% and 3.8%. The fixed asset investment in construction sector reached 325.3 billion yuan, up by 42.9%.

In term of different areas in 2011, the investment in eastern, central and western regions reached 14,453.6, 8,252.4 and 6,948.9 billion yuan, respectively rose by 21.3%, 28.8% and 29.2% over the last year.

In term of investment resources, in 2011, the investment from domestic enterprises reached 28,174.1 billion yuan, up by 24.7%; investment from HK, Macao and Taiwan reached 936.2 billion yuan, up by 19.9%; foreign investment reached 943.7 billion yuan, up by 12%.

In 2011, fixed assets investment from central government reached 2020.9 billion yuan, down by 9.7%; investment from local projects reached 28172.4 billion yuan, up by 27.2%.

## 2011 Investment in Fixed Assets (Excluding Rural Households) by Industry

Main Sectors	Investment		Proportion (National Total=100)	
	Accumulated (100 million Yuan)	Growth Rate over Previous Year	Accumulated	Same Period of Previous Year
National Total	<b>301932.85</b>	<b>23.8</b>	<b>100.0</b>	<b>100.0</b>
Construction	3252.75	42.9	1.1	0.9
Transportation, Storage and Postal service	27260.32	1.8	9.0	11.0
Railway Transport	5766.95	-22.5	1.9	3.1
Road Transport	13474.81	9.8	4.5	5.0
Urban Public Transport	2264.35	11.2	0.7	0.8
Water Transport	1927.11	-0.8	0.6	0.8
Air Transport	832.35	0.3	0.3	0.3

Resource: National Bureau of Statistics of China

In 2011, new railways construction which was put into operation reached 2167km, of which the construction of high-speed railways reached 1421km. Construction of double-

track railways which was put into operation reached 1889km and electrified railways which was put into operation reached 3398km. The new highways construction reached 3398km, of which the construction of expressways was 9129km. The new cargo-handling capacity of berths for over 10,000-tonnage ships reached 266.39 million tons.

### Outbound Direct Investment in Construction Sector

According to China Statistics Yearbook 2011, in 2010, the net overseas direct investment in construction sector was 1628.26 million yuan, and the overseas direct investment stock reached 6173.28 million by the end of 2010.

Overseas Direct Investment by Sector (\$ mln)		
Sector	Net Overseas Direct Investment	
	2010	Growth
Total	68811	21.7%
Construction	1628	352%

Resource: National Bureau of Statistics of China

According to the statistics from Ministry of Commerce, the turnover of China's overseas contracted projects in 2011 reached \$103.42 billion, up by 12.2% year-on-year; and the value of newly-signed contracts was \$142.33 billion, up by 5.9% year-on-year.

### Turnover of Contracted Projects by Regions 2010

Country (Region)	Contracted Projects (\$ mln)
Total	92170
Hong Kong	1591
Taiwan	165
Turkey	819
India	5255
United States	836
Africa	35830
Europe	4987
Asia	42658

### Foreign Direct Investment

In 2010, the total output growth by foreign investment on construction sector reached 34.9%, while the total contract value increased 97.7%, and the total revenue grew by 42.5%.

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İstanbul – Turkey  
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E berlinoffice@tusiad.org

#### Paris

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T +33 (1) 44 43 55 35  
F +33 (1) 44 43 55 46  
E parisoffice@tusiad.org

#### Beijing

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P. R. China  
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E [bxloffice@tusiad.org](mailto:bxloffice@tusiad.org)

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**2011 China Top 10 Construction Company:**

1. China Railway Construction Corporation Limited (CRCC)
2. China Railway Group Limited
3. China State Construction Engineering Corporation (CSCEC)
4. China Communications Construction Company (CCCC) Limited
5. China Metallurgical Group Corporation
6. Shanghai Construction Group (SCG)
7. Sinohydro Group Limited
8. China Pacific Construction Group
9. Guangsha Holdings
10. China National Chemical Engineering Group Corporation

**Main projects in China, 2011**

	<b>Project</b>	<b>Statement</b>
1	International Expo Center, Qinglong Lake, Beijing	under construction
2	Railway from Xilinhot to Erenhot	under construction
3	Railway from Chengdu to Lanzhou	under construction
4	Beijing-Shanghai High-speed Railway	Open to traffic in June, 2011
5	First phase Construction of Lingang Gas Power Plant in Shanghai	2011-2012
6	Qinghai Solar Energy Photovoltaic Grid Construction (1000tln W)	Finished in 2011
7	Post-disaster Reconstruction in Yushu, Qinghai	under construction
8	Shandong Part of South-north Water Diversion Project	under construction
9	Xi'an Expo Park	Opened to public in Apr, 2011
10	Chongqi Great Bridge	Started operations in Dec, 2011

**China's Major Overseas Projects:**

	<b>Project</b>	<b>Statement</b>
1	Algeria Oued Residential Construction	under construction
2	Extended-line Project of Mass Rapid Transit in Singapore	under construction
3	Isle Resort Engineering Project in Bahamas	under construction
4	ZOOMLINE Manufacturing Centre Project in	under

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	Russia, Indonesia, Turkey	construction
5	4-million-ton Concentration Plant of GEG Mine Company in Iran	under construction
6	Jill Mary New Airport Project in Ghad	under construction
7	Farm Construction in Angola	under construction
8	Muppala-Lakonde Highway Construction in Zambia	under construction
9	Communication Base Station Equipment Installation in Malaysia	under construction
10	MajnoonOil Field Pipeline Installation Project of Shell Group t in Iraq	under construction

**China –Turkey construction cooperation, 2011-2012**

- In June 19, 2011, the 6000T/D clinker line by China National Building Materials Group Corporation (CNBM) started production in Çanakkale Turkey.
- 29th Nov. 2011, The Chinese Tianchen Engineering Corporation (TCC) and the Turkish Petroleum Pipeline Company launched a joint project involving 1 billion cubic meters of underground natural gas in Ankara.
- 2012, China Railway Construction Corporation Limited (CRCC) is tracking the Edirne – Kars Hi-speed railway project.
- 2012, China's Avic International and Turkey's HemaEndustri will sign a \$1 billion deal for power plant and coal production equipment.
- January 2012, China National Electric Engineering Co., Ltd. (CNEEC) power plant project in southeast Turkey.
- Feb 2, 2012, Turkish production and manufacturing centre project of ZOOMLION was permitted by Hunan Development and Reform Commission.
- April 10, 2012, AVIC and Hattat Holding signed a \$1.5 billion deal to build a 1,320 MW coal-fired power plant in northern Turkey.
- April 10, 2012, China Sun Energy companies signed contract with AKFEL Group to build a \$350 million sun-panel factory.
- April 10, 2012, Sinovel and AĞAOĞLU Group signed contract to build a 600 megawatt (MW) wind farm in Turkey.
- April 10, 2012, Sinovel and LID Enerji signed contract on building 600 MW wind power plant in Turkey.
- April 10, 2012, Beijing Shougang International Engineering Technology (BSIET) and DEMKOR MadencilikSanayi Ltd signed 500 million USD contract on technology transfer

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F +90 (312) 428 86 76  
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F +49(30) 288 786 399  
E berlinoffice@tusiad.org

**Paris**

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Paris – France  
T +33 (1) 44 43 55 35  
F +33 (1) 44 43 55 46  
E parisoffice@tusiad.org

**Beijing**

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Office C-319, Beijing 100016  
P. R. China  
T +86 (10) 6462 2066  
F +86 (10) 6462 2067  
E tusiad.china@euccc.com.cn

project. IS IT construction or mining

- April 10, 2012, China Railway Shanhaiguan Bridge Group (CRSBG) and SUN Group signed contract on iron bridge and railway equipment joint production plan.

**Foreign Investment Projects in China (under construction)**

- Anhui comprehensive traffic infrastructure project
- New rural construction in Huangshan, industrial base infrastructure construction in Xuancheng
- Second and third phase of City environment improvement project in Wuhan
- East 2nd ring road in Wuhan
- Magna manufacturing centre in Tianjin
- Bridgestone added investment in Tianjin
- GM technique research institute in Shanghai
- TOYOTA auto study institute, in Changshu, Jiangsu

**In 2010, there are five Chinese construction companies were involved in the World Top 500 companies:**

Rank	Company	Revenue (\$ bln)
133	China Railway Construction Corporation Limited (CRCC)	52.04
137	China Railway Group Limited	50.7
187	China State Construction Engineering Corporation (CSCEC)	38.1
224	China Communications Construction Company (CCCC) Limited	33.5
315	China Metallurgical Group Corporation	25.9

The World Top 225 Contractors report showed that China ranked first in the world construction market proportion. China has advantage in Africa and Asia which accounts 38.73% and 22.72% of market in these regions.

**Construction sector focus before 2011**

In the construction sector, in particular, infrastructure, it benefits directly from government initiatives to expand the country's physical infrastructure by constructing new and refurbishing old highways, railways, and subway systems. Additionally, China's railway network stands to gain from both the strategic goals outlined in the 11thFive-Year Plan and the recent stimulus package, offering more aggressive investment into a variety of railway projects and expanded plans for future railway construction.

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T +32 (2) 736 40 47  
F +32 (2) 736 3993  
E [bxloffice@tusiad.org](mailto:bxloffice@tusiad.org)

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T +1 (202) 776 77 70  
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E [usoffice@tusiad.us](mailto:usoffice@tusiad.us)

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Berlin 10179 Germany  
T +49 (30) 288 786 300  
F +49(30) 288 786 399  
E [berlinoffice@tusiad.org](mailto:berlinoffice@tusiad.org)

#### Paris

33, Rue de Galilée 75116  
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F +33 (1) 44 43 55 46  
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## 12<sup>th</sup> Five Year Plan on Construction Sector:

In the 12<sup>th</sup> Five Year Plan, the development of construction in China will focus on energy saving and pollution emission reduction areas. China will promote the technology and management innovation in construction sector, green construction, and modern industrialization as the model of construction industry.

Additionally, as restructuring the economy through industrial upgrading, reducing the urban and rural divide, promoting the development of Western China and energy efficiency and environmental protection toward, the construction sector is changing toward to better quality and sustainability. Currently, China delivered seven “Strategic Emerging Industries” (SIE):

- Energy-saving and environmental protection
- Next generation information technology
- Bio-technology
- High-end/advanced equipment manufacturing
- New energy
- New materials
- New energy vehicles

All these SIEs will affect the construction sector, including constructors, architectural offices, real estate developers, manufacturers and the distributors of building productions.

As the target of construction sector, the total value added of industry will reach an annual growth of over 15%; the revenue of engineering exploration design enterprises will reach an annual growth of over 15%; annual revenue growth of engineering management and consulting services enterprises will be over 20%; the total income of engineering contracts will achieve an annual growth of over 20%.

## What foreign investors should be concern of when they invest in Chinese construction sector

Although foreign investors and contractors now have much broader access to the Chinese construction market than before, and many private and foreign constructors are rapidly developing in Chinese certain provinces, special economic zones that have been initiated to attract foreign investment, foreign contractors directly investing in China or setting up office there may encounter a wide range of practical problems that bring potential risks for them to invest in China.

Foreign contractors have to consider Chinese tax, accountancy and employment law. However, China is going through rapid change and its regulations, legislation and institutional structures are in a state of continual transition. Foreign investors have to keep in tracking the regulation changes on construction sector.

The licensing of professionals has been a barrier for foreign firms to establish a

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permanent presence in China. Currently it is difficult for foreign firms to obtain such licenses. Moreover only licensed firms in China are allowed to "stamp" drawings as official.

New tendering and bidding regulations have not been widely adopted and lack enforcement power in China. Many organizations are resisting the implementation of the new tendering and bidding regulations, and as a result, the continued lack of transparency in the current tendering and bidding procedures still exist. Foreign contractors also face severe partnering and bidding restrictions. They are blocked by unpublished restrictions and procedures that result in costly delays.

Foreign firms are not allowed to specify products by name in their designs. Some contractors may use inferior materials without the written approval of the designer or owner. Consequently, this will correspondingly result in lower construction quality.

Some Chinese contractors may subcontract entire projects to other contractors without notifying project owners or representatives. Besides, if the other contractors are actually has insufficient knowledge of the project or lack of compensation requirement to process the work in a professional manner, communication and contract problem can be arise.

**Prospects in construction sector:**

- Construction of infrastructure will keep in high growth term in the next 5 years, especially on affordable housing, railway, road and hydropower construction areas, which will provide more opportunities to companies.

**12<sup>th</sup> Five Year Plan on infrastructure construction (100 million yuan)**

Industry	11 <sup>th</sup> Five Year	12 <sup>th</sup> Five Year	Growth %
Water Conservancy	7050	21210	200.9
Urban Mass Transit	5550	8820	58.9
Port	4930	10000	102.3
Hydropower	4210	8160	93.8
Railway	24200	28000	15.7
Road	40630	50000	23.1

- In the 12<sup>th</sup> five year plan, central and western regions in China, the urban clusters, road net, railway net, airport, and port constructions will become hot projects.
- China will enhance "going out" policy in construction sector. The construction business is shifting from The U.S., Japan and Western Europe to emerging countries like China and India, and major growth markets of international engineering contracts are in Middle East and Asia.

China becomes the hi-speed railway export country. As the boom of hi-speed railway construction in the world, China already signed contract with The U.S., Brazil, Venezuela, Russia, Belarus, United Arab Emirates, Cambodia, Laos, Myanmar, Iran, and Turkey on railway construction cooperation.

**TURKISH  
INDUSTRY & BUSINESS  
ASSOCIATION**

**MEMBER OF  
THE CONFEDERATION OF  
EUROPEAN BUSINESS  
BUSINESSEUROPE**

#### **Headquarters**

Meşrutiyet Caddesi,  
No: 46 Tepebaşı 34420  
İstanbul – Turkey  
T +90 (212) 249 19 29  
F +90 (212) 249 13 50  
E [tusiad@tusiad.org](mailto:tusiad@tusiad.org)

#### **Ankara**

İran Caddesi, No: 39/4  
Gaziosmanpaşa 06700  
Ankara – Turkey  
T +90 (312) 468 10 11  
F +90 (312) 428 86 76  
E [ankoffice@tusiad.org](mailto:ankoffice@tusiad.org)

#### **Brussels**

13, Avenue des Gaulois, 1040  
Brussels – Belgium  
T +32 (2) 736 40 47  
F +32 (2) 736 3993  
E [bxloffice@tusiad.org](mailto:bxloffice@tusiad.org)

#### **Washington D.C.**

1250 24th Street,  
N.W. Suite Nr. 300,  
Washington D.C. 20037 USA  
T +1 (202) 776 77 70  
F +1 (202) 776 77 71  
E [usoffice@tusiad.us](mailto:usoffice@tusiad.us)

#### **Berlin**

Märkisches Ufer, 28  
Berlin 10179 Germany  
T +49 (30) 288 786 300  
F +49(30) 288 786 399  
E [berlinoffice@tusiad.org](mailto:berlinoffice@tusiad.org)

#### **Paris**

33, Rue de Galilée 75116  
Paris – France  
T +33 (1) 44 43 55 35  
F +33 (1) 44 43 55 46  
E [parisoffice@tusiad.org](mailto:parisoffice@tusiad.org)

#### **Beijing**

Beijing Lufthansa Centre,  
Office C-319, Beijing 100016  
P. R. China  
T +86 (10) 6462 2066  
F +86 (10) 6462 2067  
E [tusiad.china@eucc.com.cn](mailto:tusiad.china@eucc.com.cn)

[www.tusiad.org](http://www.tusiad.org)

As the national policy support on export loan and “Projects-for-Resources”, the M & Q and explored projects by Chinese construction enterprises increased, especially in Africa and Middle East regions.

## **Facts that influence Chinese construction development**

Increasing demand on raw materials, such as steel and cement, is the main factor which influences the development of construction sector in China, such as steel and cement, the housing, transportation, sanitation and social services required to meet of the approximately 350 million people moving to cities in the next 20 years. Therefore, the limited resources challenge China’s ability to satisfy such large amount of demands.

Additionally, in order to support the development of urbanization, China will distribute more infrastructure construction sector. However, the energy saving and environment conservation targets of 12th Five Year Plan limits the speed of growth on construction. With its massive future urbanization plans, China has a unique opportunity to construct eco-cities on a major scale.

Moreover, the use of advanced construction materials and equipment is also challenging the development of construction industry. For achieving the green economic and urbanization development targets, by using the advanced construction materials and equipment can improve the building performance.