

Show Me the Money: Doing Business in Asia (China)

Pacific Crossings – KS-HK11

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Global Context

Country	2003	% of Top 55 Countries	2004	2005	2006	2007	2008	% of Top 55 Countries
United States	1,039.30	29.8%	1,159.10	1,210.10	1,218.00	1,244.00	1,288.60	26.7%
Japan	464.50	13.3%	506.80	543.80	571.50	587.40	609.50	12.7%
China	241.90	6.9%	269.10	299.60	338.10	388.40	440.00	9.1%
Germany	220.60	6.3%	246.80	258.20	267.00	282.20	292.10	6.1%
France	173.00	5.0%	196.80	208.20	218.30	234.00	245.20	5.1%
Italy	160.00	4.6%	182.10	193.40	203.10	218.40	229.30	4.8%
United Kingdom	151.20	4.3%	177.50	183.40	190.00	201.40	210.80	4.4%
Spain	144.00	4.1%	165.90	178.70	189.60	204.40	215.40	4.5%
Canada	105.90	3.0%	123.30	132.20	141.00	151.50	160.10	3.3%
Netherlands	70.00	2.0%	78.50	82.60	86.40	92.50	96.90	2.0%
India	65.00	1.9%	73.90	78.50	84.90	92.20	100.00	2.1%
Mexico	62.60	1.8%	65.50	69.10	71.40	72.80	75.10	1.6%
Brazil	42.30	1.2%	54.30	56.70	59.40	61.40	65.30	1.4%
Australia	48.50	1.4%	49.30	51.30	53.80	55.90	58.70	1.2%
Russia	33.90	1.0%	42.30	47.00	51.50	56.20	61.00	1.3%
	3,022.70	86.6%					4,148.00	86.1%
Total 55 Countries	3,489.50		3,913.50	4,151.50	4,335.60	4,577.20	4,817.70	

Source: Global Insights

China - Market Shaping Trends

- **Growing consumerism and “middle class”**
- **WTO Entry**
 - Capital markets liberalization: phasing out quotas
 - Banking reform to become more Basel-compliant
 - More favorable FDI policies
 - Legal reform
- **Growth of private enterprise**
 - Privatization of SOEs: Loss of direct government funding - need to raise funds in capital markets and shift to business performance measures
 - Emergence of new wealthy class
- **New generation of Party and government leadership**
 - First smooth leadership transition at the 16th Party Congress (March 03)
 - Reaffirmation of reform trends
 - Sweeping bureaucratic reorganization - clearer separation of supervisory and operating entities; functions will more closely mirror western models

Source: Prof. Kenneth Lieberthal, University of Michigan

China Construction Industry Overview

■ Highly fragmented and competitive

- 11,495 design institutes, 50,000+ construction firms, 100,000 + building product manufacturers
- Players are locally or regionally oriented, with only a few with national presence
- Vertical markets (i.e., railway, hydro electric, petrochemical) are dominated by a handful of state-owned A/E/C firms; the level of integration, both horizontal and vertical, is very low

■ Complex reporting lines - a legacy of the old planning economy

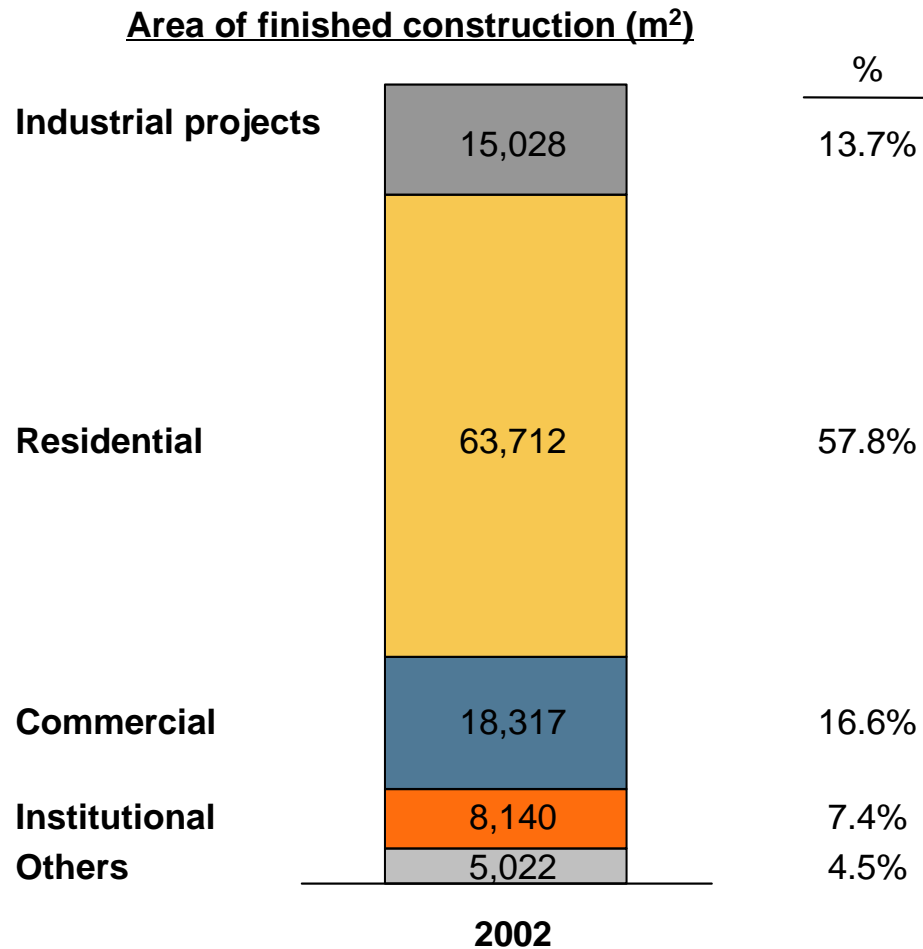
- The Ministry of Construction (MoC) is key but others can't be ignored
- Ministry of Commerce
- Ministry of Information
- Provinces
- Major Municipalities

■ Industry is in transition; government policy and regulatory environment will continue to evolve

- National qualification, classification and licensing system for individual and institutional practitioners has been in place for years but far from perfection
- Recent Decrees 113 and 114 pose barriers to foreign design and contracting firms
- On the other hand, there are signs for the government's increasing awareness and push for environmental, energy saving, and public health initiatives

INFRASTRUCTURE AND REAL ESTATE ARE KEY INVESTMENT AREAS

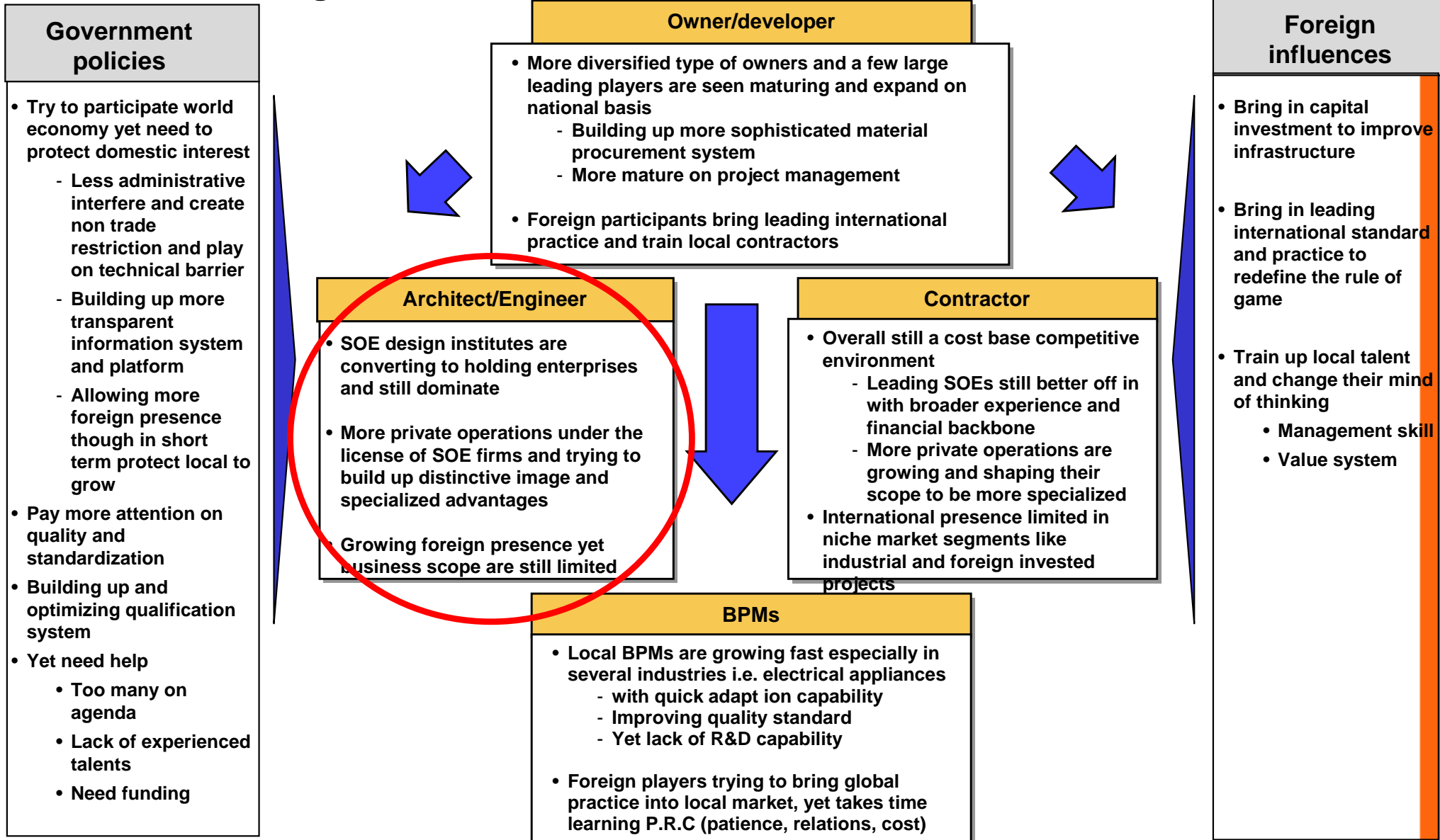
Within housing construction, residential and commercial projects are the majority



- In Shanghai, 3000 units in 2001 to 100,000 in 2003

CHINA CONSTRUCTION INDUSTRY IS STILL IMMATURE BUT EXPERIENCING FAST CHANGES

Continue To Integrate To The World Economy And World Standard



KEY QUESTIONS TO BE ANSWERED

Key questions to be answered

- What are the key trends in the construction industry in China?
- What are the key events, policy changes, and emerging influences that are shaking up the industry?
- Is consolidation taking place? Will there be a more national market for building products and technology?
- How is the reform of SOE construction firms
- What's the trends of privatization of design firms and increasing foreign participation in the A/E/C sectors impacting the buying/specification behavior of building products/technology?

Key findings

- Regulatory environment is improving though not yet complete
 - Balance of WTO and local protection
 - Balance of industry standard and player survival
- Consolidation happening though very slow
 - Contractor: China railway merged with China bridge/tunnel
 - Developer: entry barrier gets higher and forced out many small players and large ones get bigger
- Privatization moving forward though SOE background still lead
 - Strong and large private contractor emerging from Zhejiang/Jiangsu provinces to participate in leading projects in Shanghai/Beijing
 - Design institutes converting to enterprises
- Foreign participation being welcomed though with restrictions
 - Foreign design firms can partner with local ones and take on many projects
 - Increasing presence of foreign investors in real estate sector

LOOKING INTO THE FUTURE, CHINA CONSTRUCTION MARKET WILL CONTINUE TO GROW IN THE NEXT 25 YEARS

Meanwhile, Several Key Development Trends Need To Keep In Mind

Continue fixed assets investment increase in next 10 years

Infrastructure development requires US\$270 billion funding for next 10 years according to world Bank estimation

- Road network
- New highway

Residential building will remain fast growth

- Per capita living area reach 25 sqm by 2010
- 486-549 million square meters of new buildings per year in next 15 years

Energy projects and environment enhancement projects will also increase substantially

- Key cities are paying more attention on environment

Several key trends could translate into attractive business opportunities

Reform of public utility sector (water, electricity, gas, transportation, healthcare, tourist and others)

National market started to form with local protection being demolished

- Lower entry barriers for non local players

Urbanization will continue to create more opportunities

Overall concerns on energy saving, environment friendly and promotion of new material development

More emphasize on product/project quality and standard



The Underlying Trend:

China's Integration Into The Global Design and Construction Market

■ Foreign players in China

- Investors, developers, A/E/C firms and manufacturers

■ Leading Chinese in the international markets

- 49 Chinese firms on ENR's Top 225 Int'l Contractor list and 13 on the Top 200 Int'l Design Firm list in 2005
- Business today concentrated in Africa, Southeast Asia & Mideast
- China State and Shanghai Construction spear heading in North America



■ Demand for cross-border market information and intelligence

■ Increasing need to create / promote global standards

■ Quest for global talent

- Bi-lingual / multi-lingual
- Bi-cultural / multi-cultural

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