

# Architectural, Engineering, and Construction Services

International Outlook for U.S. Providers

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Office of Service Industries, Trade Development

Opportunities exist overseas for U.S. architectural, engineering, and construction (AEC) service providers, in areas in which American firms have competitive advantages and extensive experience. This is particularly true for projects requiring advanced and highly technical design, engineering, and construction services; integrated project delivery (including design-build, engineer-procure-construct, and build-own-operate projects); or program, construction, and post-construction facility management services. However, continuing global economic weakness, fluctuating oil prices, strong local competition, and world events in the wake of the Iraqi war will result in an uncertain outlook for U.S. AEC firms abroad through early 2004. In this atmosphere, proper due diligence and careful attention to economic, market, financing, and competitive conditions abroad is essential for small, medium-sized, and large U.S. firms seeking to operate in foreign markets. U.S. firms would be well advised to take a “harder look” at international projects to ensure that owners and potential partners abroad are “well funded and have the commitment to move ahead” with projects of interest, reports Joe Kneib,

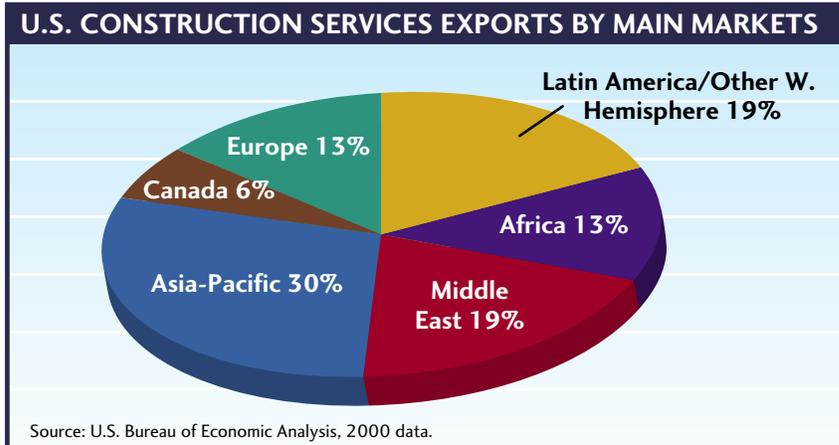
vice president of Herzog Contracting Corporation, St. Joseph, Mo.

The global construction industry is a crucial engine of economic growth worldwide, with an estimated annual market value of more than \$3.4 trillion, according to *ENR* magazine. However, it is a highly cyclical industry, with owners’ decisions, project demand, and the availability of commercial lending and foreign direct investment all determined by local and global economic factors. These conditions and factors make it difficult

to predict industry conditions from year to year. U.S. AEC firms must review these short-term factors carefully before deciding whether to enter a regional market, collaborate with an overseas partner, or participate in an international project.

Two key regions of construction activity, Asia and Europe, are highlighted here. Information on other regions or specific countries can be obtained from U.S. Department of Commerce specialists, or the resources listed at the end of this article.





### ASIA

As in recent years, and despite the lingering effects of the late-1990s economic crisis, Asia—led by China, the world's fastest-growing construction market, and Japan, the world's second-largest market—continues to lead world construction activity, accounting for more than 33 percent of global spending, according to *ENR* estimates.

Construction spending in Japan is expected to continue to decline over the next few years, as Japan's economic slump continues, according to *ENR*. However, in China, construction activity of all types—manufacturing, industrial, residential, commercial, and infrastructure, both public and private—will remain strong, in part due to China's anticipated economic growth stemming from its December 2001 entry into the World Trade Organization.

U.S. firms seeking work in China face stiff competition from Chinese competitors. For these firms, establishing partnerships in China may represent the quickest way to enter the Chinese market. However, full implementation of China's architectural, engineering, and construction commitments—key conditions for China's WTO accession—has now made it possible for U.S. firms to open foreign majority-owned joint venture subsidiaries and special-purpose wholly foreign-owned construction firms, with wholly

foreign-owned local design firms permitted by December 2006. China's implementation of international rule-of-law principles under the WTO should help to ease U.S. industry concerns about local adherence to contract terms and being paid for services rendered.

Public infrastructure and facility investment remains a key element of China's economic growth strategy. Growth in overall infrastructure investment continues at double-digit levels, in an effort by China's central government to keep national economic growth rates above 7 percent annually.

Perhaps the best known of China's pending infrastructure projects is the \$23 billion worth of sports, retail,

housing, transportation, energy construction, and environmental remediation project spending between now and 2008 in preparation for the Beijing Summer Olympics. Meanwhile, Shanghai anticipates spending \$3 billion to build venues for Expo 2010, with additional billions to be spent on transportation and other expo-related infrastructure projects. Recent press articles report subway construction now under way in Shanghai, Guangzhou, Tianjin, and seven other cities; 8,500 miles of railroad to be added by 2005; and numerous nationally and locally funded dam, energy, pipeline, and highway projects across China.

Additionally, power, petrochemical, and environmental projects offer prospects for U.S. engineering and construction firms experienced in these sectors. Owners of advanced and technically difficult building projects in China continue to seek out leading U.S. architectural firms.

However, U.S. architects, engineers, and contractors face significant obstacles in their efforts to obtain work in China. Financing remains a key issue, even on public infrastructure projects. While Chinese officials have said they would prefer 15 to 20 percent of public infrastructure to be financed by



foreign sources, this represents moving foreign direct investment away from export-oriented private sector industrial construction—with relatively easy return on capital available—to projects with uncertain return on revenue and long payback periods. In addition, and as noted, U.S. firms face stiff competition from the over 10,000 Chinese design institutes and substantial pool of national and local contractors in China.

For U.S. firms, profitable participation in Chinese projects will depend on careful attention paid to the role the firm will play in local partnerships, the stability of potential return on investment, and the type of competitive advantage the U.S. firm will enjoy over its competitors in the Chinese market.

## EUROPE

Europe, as a region, is second behind Asia in terms of construction activity, accounting for just under 30 percent of global spending, according to *ENR*. However, weak economic growth in the region over the next year is expected to inhibit new private project demand and investment. Some bright spots remain in EU construction markets, with public sector investments in the United Kingdom and infrastructure investment in Spain leading the way, according to the European Construction Industry Federation. However, with economic conditions in Germany (20 percent of Europe's construction market), France, and the Netherlands remaining weak, total construction growth in Europe is expected to remain flat if not decline further. Notably, EU-funded infrastructure and environmental construction in Eastern European countries to help prepare them for EU membership by May 2004 represents a bright spot in Europe's construction sector.

## RESOURCES

### U.S. Government

The International Trade Administration's industry, export, and financing

specialists, both in Washington, D.C., and U.S. Export Assistance Centers across the United States, are key resources for U.S. AEC firms as they evaluate projects and markets abroad. The following is a sample of the services offered to U.S. firms:

- The Office of Service Industries (202-482-5086) monitors and evaluates overseas market conditions, participates in international market-opening negotiations, and provides links to industry specialists at U.S. Commercial Service offices worldwide.
- The Office of Finance, through its Export Finance Matchmaker Program (202-482-3277) can link new-to-market U.S. AEC service exporters with appropriate specialists at U.S. export credit agencies such as the U.S. Export-Import Bank and Small Business Administration; multilateral development banks such as the World Bank, the Asian and Inter-American Development Banks, and European Bank for Reconstruction and Development; feasibility and technical assistance grant programs at the U.S. Trade and Development Agency; and investment insurance programs available under the Overseas Private Investment Corporation.
- U.S. Commercial Service offices at U.S. embassies worldwide can evaluate prospective local partners and markets/projects, arrange meetings with key overseas officials and executives, and research local sources of funding ([www.buyusa.gov](http://www.buyusa.gov)).
- Specialists at the U.S. Export Assistance Centers throughout the United States provide export counseling and information on federal export promotion programs and services, identify export regulations affecting U.S. firms, provide links to U.S. industry and finance specialists in Washington, D.C., and in embassies worldwide, and

## Major Exhibitions and Conferences

### International Exhibition on Environmental Technologies (ENVEX) 2003

Building products, construction machinery, and AEC services are important parts of ENVEX.

Seoul, South Korea

June 17–20, 2003

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### Edifica 2003

This regional trade show includes building materials, construction equipment, and related services.

Santiago, Chile

September 24–27, 2003

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### Tourism Infrastructure and Development Exhibition and Conference

This event coincides with the Athens Real Estate Exhibition and Conference.

Athens, Greece

October 17–20, 2003

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help U.S. firms identify projects of interest through market research reports prepared by Commercial Service posts around the world.

- Specialists at the Advocacy Center (202-482-3896) arrange high-level advocacy on behalf of U.S. firms that face formal or informal trade barriers or arbitrary government decisions abroad.
- Additional information on overseas markets and projects, export requirements, and U.S. government export assistance programs can be found at [www.export.gov](http://www.export.gov) and individual U.S. embassy Web sites.

**Industry**

Exporters should also be aware of the following industry sources of information:

- U.S. industry associations: The international divisions of the Associated General Contractors of America and the American Institute of Architects are key resources for new-to-market U.S. architectural, engineering, and

construction service providers, as well as firms currently operating overseas, in identifying potential projects, market problems, and trade conditions. Additional information can be found on their Web sites, [www.agcglobal.org](http://www.agcglobal.org) and [www.aia.org/international](http://www.aia.org/international).

- International industry associations: The International Federation of Consulting Engineers ([www.fidic.org](http://www.fidic.org)) maintains the on-line edition of the *FIDIC International Directory of Consulting Engineers*, which contains information on international tenders.
- Media and on-line resources: McGraw-Hill maintains a number of subscription-based sources of overseas market information that are crucial to U.S. architectural, engineering, and construction firms. Among these are *Dodge Reports*, *Dodge Plans*, and *Dodge Analytics* (providing information on overseas projects, blueprints, and economic trends) as well as industry-specific magazines, such

as *ENR*, *Architectural Record*, and *Design-Build*. Additional information on these services can be found at [www.construction.com](http://www.construction.com).

**Multilateral Organizations**

Lastly, information on potential projects, pending international tenders, and regional and world economic conditions can also be found in various sections of major multilateral development organizations, including the World Bank ([www.worldbank.org](http://www.worldbank.org)), the International Monetary Fund ([www.imf.org](http://www.imf.org)), the Asian Development Bank ([www.adb.org](http://www.adb.org)), the Inter-American Development Bank ([www.iadb.org](http://www.iadb.org)), and the European Bank for Reconstruction and Development ([www.ebrd.org](http://www.ebrd.org)). ■

