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CHRISTOPHER R. SEPPALA

*Partner, White & Case, Paris*

HOW MUCH INTERNATIONAL CONSTRUCTION  
IS THERE AND WHERE IS IT BEING DONE?

A recent French government study, undertaken for the benefit of French contractors (hereinafter the "Study"),<sup>1</sup> provides a picture of the size of the international construction industry and of the relative importance of international construction in different regions of the world. As this is, to the author's knowledge, the only recently published work to provide this information, its findings may be of interest to the readers of the *Review*.

**I. The French government study**

The purpose of the Study, which was published in 1988,<sup>2</sup> is to "describe the development of competition encountered by French construction companies both at the international level and at various local levels".<sup>3</sup> The Study, which purports to describe the world market as of 1986, is based on an analysis of 99 countries grouped into seven regions: Latin America, North Africa, Sub-Saharan Africa, the Middle East, Asia and Oceania, "Anglo-Saxon" America (defined as the United States and Canada) and Europe. Those countries excluded or only briefly analysed are Lebanon, Iran, Afghanistan, Vietnam, Cambodia and Laos. The Study was prepared from information obtained

<sup>1</sup> The Study was undertaken by the French Scientific and Technical Centre for Building (*Centre Scientifique et Technique du Bâtiment*) at the request of the French Ministry of Equipment, Housing, Zoning and Transportation. Its exact title is *Les Entreprises de B.T.P. Concurrents des Entreprises Françaises—Description des Marchés et des Acteurs* (Construction Companies Competing with French Companies—A Description of the Markets and the Players). "B.T.P." stands for *Bâtiment/Travaux Publics* and, in this context, includes the entire field of building and civil engineering. The complete study, which consists of six volumes, is available to French contractors and other authorised persons at the *Centre Français du Commerce Extérieur, Direction des Industries et Services*, 10 Avenue d'Iéna, 75783 Paris Cedex 16. This article is a summary of certain of the findings contained in Volume 1—*Synthèse et Principaux Pays Concurrents* (Synthesis and Principal Competing Countries) which was graciously made available to the author by the *Centre Français du Commerce Extérieur*.

<sup>2</sup> The study is referred to in an article entitled "BTP Mondial: Le Grand Monopoly" in the 26 August 1988 edition of the French Magazine, *Le Moniteur*.

<sup>3</sup> The Study, at 1 (author's translation).

from sources within both the French government (including its economic missions abroad) and the French construction industry.<sup>4</sup>

Of general interest are the Study's findings with regard to:

- (1) the total volume of construction work both worldwide and by region, and
- (2) the total volume of such work being executed by contractors under foreign control, again, worldwide and by region.

## II. The total volume of construction work being performed worldwide and by region

According to the Study, the total volume of construction work worldwide (*Volume d'activité B.T.P. mondial*) is estimated in money terms as having been U.S.\$1,475 billion in 1986.<sup>5</sup> The Study then breaks the world construction market down into three major regions:

- (1) Industrialised countries having market economies (*pays industrialisés à économie de marché*), comprising the United States and Canada, Western Europe and Japan;
- (2) Eastern Europe, comprising the Eastern bloc countries including the U.S.S.R. and Yugoslavia; and
- (3) Developing and newly industrialised countries, comprising Asia and Oceania (excluding Japan), Latin America, Africa and the Middle East.

Of the 1986 total of U.S.\$1,475 billion, the industrialised countries with market economies accounted for 72% or U.S.\$1,065 billion. Of this U.S.\$1,065 billion, the United States and Canada accounted for U.S.\$415 billion (the United States alone representing U.S.\$375 billion), Western Europe for U.S.\$350 billion and Japan for U.S.\$300 billion. There are numerous experienced contractors in these countries, the Study notes, and construction activity there is relatively sustained with maintenance and repair work (*travaux de maintenance—reparation*) becoming increasingly important.

Next in importance, but far below the industrialised countries with market economies, is Eastern Europe, including the U.S.S.R., which accounts for 16% of the world construction market or U.S.\$240 billion. In these countries, the Study notes, construction activity is constantly, though moderately, diminishing. In the future, the Study predicts, it will be the nature of construction work which is likely to change more in these countries than its

<sup>4</sup> The Study notes that the statistical information it contains needs to be used with caution inasmuch as numerous countries do not have, or do not wish to provide, precise statistics as to the market share held by local or foreign companies. Consequently, such statistics are often the result of estimation by experts resident locally (e.g., the commercial counsellor at the local French Embassy or representatives of local subsidiaries of French companies).

<sup>5</sup> For purposes of the Study, the term construction (*B.T.P. or Bâtiment/Travaux Publics*) is defined to include: building; road works; electrical and industrial installations (civil works); water supply and drainage (civil works); bridges, viaducts and tunnels etc. (civil works and metallic structures); excavations, underground works and special foundations; borings and drillings; railway works; and marine works and waterways, including dredging. This explanation of the definition of construction used in the Study was graciously provided to the author by Mr. L. Cornuault, *Responsable "Infrastructures-Transports"* at the *Centre Français du Commerce Extérieur*.

volume. There is likely to be greater emphasis there on rehabilitation and improvement in the quality of construction.

Last in importance are the developing and newly industrialised countries, which together represent 12% of the market or U.S.\$170 billion. While accounting for the smallest portion of construction work worldwide, they are reportedly much more open to foreign competition than the other two major regions mentioned; consequently, they account for a large portion of the international construction which is done (see Table II below). Furthermore, the Study concludes, the needs of these countries are very important in the areas of housing—accounting for 7.6 million units out of a world production of 15.7 million in 1986—and infra-structure. In these countries, nearly U.S.\$40 billion, it is estimated, will have to be spent annually from 1987 to 1991 on the construction of infrastructural roads.<sup>6</sup> Table I, below, shows the volume of construction work worldwide, by region, in more detail.

*Table I*

*Estimated<sup>7</sup> volume of construction work worldwide,  
by region (1986)*

<i>Region</i>	<i>Volume (in billions of U.S.\$)</i>	<i>Percentage (%)</i>
North America <sup>8</sup>	415	28.1
Asia-Oceania (Japan)	375 (300)	25.4 (20.0)
Western Europe	350	23.7
Eastern Europe (U.S.S.R.)	240 (190)	16.0 (13.0)
Latin America	40 to 50	3.0
Africa (Northern Africa)	30 (15)	2.0 (1.0)
Middle East	20	1.5
Total	<u>\$1,475</u>	<u>100.0%</u>

### **III. The total volume of international construction work, worldwide and by region**

Out of the estimated total volume of construction work of U.S.\$1,475 billion in 1986, the Study estimates that about U.S.\$50 billion, or 3.5%, represents

<sup>6</sup> According to an unidentified U.S. source referred to in the Study.

<sup>7</sup> By the French Scientific and Technical Centre for Building (*Centre Scientifique et Technique du Bâtiment*).

<sup>8</sup> United States and Canada only.

what may be defined as international construction, that is, work performed by companies "under foreign control (either directly or through subsidiaries)" "*sous contrôle étranger (direct ou par le biais de filiales)*".<sup>9</sup>

For purposes of this definition, a "subsidiary" is deemed to be under foreign control if it is effectively controlled by a foreign company, whether or not such foreign company owns more than 50% of its shares. Only a "first tier" subsidiary in a country is included and not any subsidiaries of that subsidiary in such country. In the case of joint ventures, account is only taken of the value of that part of the work which is executed by the foreign company or its foreign controlled subsidiary. The part performed by local companies is excluded.<sup>10</sup>

Of the above figure of U.S.\$50 billion, North America (the U.S. and Canada) accounts for U.S.\$12.5 billion, the Middle East for U.S.\$8 to 9 billion, Africa (sub-Sahara) for U.S.\$7 to 8 billion, Asia and Oceania (excluding Japan) U.S.\$6 to 7 billion, Latin America U.S.\$5 to 7 billion and North Africa U.S.\$5 to 6 billion. The balance of construction work performed by companies under foreign control is accounted for by Eastern Europe (U.S.\$3 billion) and Western Europe (U.S.\$1.3 billion).

However, these figures show only the *volume* of international construction by region and do not reveal the relative importance of international construction in each region. To discover this, it is necessary to consider the *rate of market penetration* by contractors under foreign control, by region. The highest rates of market penetration by contractors under foreign control are in regions having a relatively low volume of construction work, namely, the developing countries. The rates are, as follows:

- Africa (sub-Sahara): 50 to 55%;
- Middle East: 40 to 45%;
- North Africa: 35 to 40%;
- Latin America: 10 to 15%;
- Asia and Oceania (excluding Japan): 8 to 9%;
- North America (United States and Canada): 3.5%;
- Eastern Europe: 1%;
- Western Europe: 0.35%; and
- Japan: 0%.

For the world as a whole, the average rate of market penetration by contractors under foreign control is shown as 3 to 4%.

Thus, while North America accounts for the highest volume of construction work under foreign control (U.S.\$12.5 billion), because the North American market is so large (U.S.\$415 billion), such work only represents a very small percentage of the construction work undertaken there (3.5%). On the other

<sup>9</sup> The Study, at 6 (author's translation).

<sup>10</sup> This explanation of the definition of "foreign control" used in the Study was graciously provided to the author by Mr. L. Cornuault, *Responsable "Infrastructures-Transports"* at the *Centre Français du Commerce Extérieur*.

hand, while Africa (U.S.\$30 billion) and the Middle East (U.S.\$20 billion) each accounts for a relatively very small volume of the world's construction work (2% and 1.5%, respectively), they account, together, for a relatively large proportion of the work by contractors under foreign control in the world as a whole, because the rate of market penetration by contractors under foreign control is so high there (40 to 55%).

Set forth below is a table (Table II) showing the volume of international construction work (that is, work executed by contractors under foreign control), by region, together with the corresponding rate of market penetration:

*Table II*

*Estimated<sup>11</sup> volume of international construction and corresponding rate of market penetration, by region (1986)*

<i>Region</i>	<i>Volume (in billions of U.S.\$)</i>	<i>Percentage Rate of Market Penetration (%)</i>
North America <sup>12</sup>	12.5	3.5
Middle East	8-9	40-45
Africa (Sub-Sahara)	7-8	50-55
Asia-Oceania	6-7	8-9
Latin America	5-7	10-15
North Africa	5-6	35-40
Eastern Europe <sup>13</sup>	3	1
Western Europe	1.3	0.35
Japan	0	0
World	Total: <u>\$48-54</u>	Average: <u>3-4%</u> <sup>14</sup>

#### IV. Conclusion

While international construction, as defined (that is, work performed by contractors under foreign control), is substantial in volume (U.S.\$50 billion) it still represents only 3.5% of global construction, or U.S.\$50 billion out of a total of U.S.\$1,475 billion, in 1986.

On the other hand, like other markets, the international construction market is changing. While the Study indicates no new work being done in

<sup>11</sup> By the French Scientific and Technical Centre for Building (*Centre Scientifique et Technique du Bâtiment*).

<sup>12</sup> United States and Canada only.

<sup>13</sup> Includes U.S.S.R. and Yugoslavia.

<sup>14</sup> This percentage shows the relationship between the volume of work performed by companies under foreign control (\$48 to \$54 billion) and the global volume of construction work (\$1,475 billion).

1986 by foreign controlled contractors in Japan, which alone accounted for more than 20% of global construction (U.S.\$300 billion in 1986), some degree of foreign penetration there seems inevitable. Substantial cross-border activity within Western Europe by Western European contractors, which has begun, should grow with the current movement to develop the European Economic Community.<sup>15</sup> New opportunities are arising in the Middle East, following the cessation of hostilities between Iran and Iraq, in the Soviet Union and Eastern Europe. Moreover, in an increasingly economically-interdependent world, capital flows should, eventually, resume to the developing countries, the biggest market for international construction, stimulating increased activity there.

These and similar developments are likely, in time, not only to cause an increase in the volume of international construction but to cause international construction to represent a larger percentage of global construction.

<sup>15</sup> According to the *International Herald Tribune* of 15-16 October 1988, on 14 October 1988, the members of the European Economic Community agreed on a directive for the setting up of a single public works market, allowing any contractor in the Community to bid for public tenders in another country of the Community. The directive is subject to approval by the European Parliament.