



## The world's biggest construction companies Great wall builders

**Chinese firms are the new challengers in the global construction business**

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NOT so long ago Japanese construction firms were the competitors that Western ones feared the most. But in less than a decade the Japanese have disappeared from



When they finish, you'll see it from space

*International Construction* magazine's annual top ten, with their places taken—inevitably—by the Chinese (see table). China's unprecedented construction boom has coincided with stagnation in Japan. Japanese firms have retreated just as the Chinese challengers have begun to explore the world.

Many of the Chinese firms' earliest foreign forays were linked to their government's quest for minerals in sub-Saharan Africa—for instance, building railways from mines to ports. But now they are popping up all over the place. China State Construction & Engineering Corporation (CSCEC), reckoned by *International Construction* to be the world's biggest builder, is renovating the Alexander Hamilton Bridge in New York, helping erect a huge tower block in Moscow and creating a massive tourist resort in the Bahamas. China Railway Construction Corporation (CRCC), the second-biggest, is building Mecca's new metro system.

The Chinese challengers are all government-controlled and supported by the country's state banks, though they have also raised money through stockmarket listings in Hong Kong and Shanghai. Having hitherto had plenty to keep them busy at home, they will now be under more pressure to seek foreign work. Analysts at HSBC, a bank, reckon that China's spending on transport infrastructure, having grown at double-digit annual rates for the past decade, may fall during the current, 2011-15, five-year plan.

China's construction firms have become good at finishing big projects on time. But analysts doubt whether they are ready for rich countries. Julian Bu of Jefferies, an investment bank, says their main advantage—low labour costs—is little help in places where they cannot bring lots of Chinese workers over. Furthermore, they have been mollycoddled by the government back home, with “cost-plus” contracts in which margins are guaranteed. In rich countries, construction firms usually bear much of the risk of cost overruns, something the Chinese have little experience in managing. Already, notes Mr Bu, some of them have hit trouble in Saudi Arabia, Australia and Poland.

As the Chinese firms seek to expand globally, they can learn from the decline of the Japanese and the survival of some big Western firms. One reason the Japanese dropped down the world league, says Jordi Roca of Accenture, a consultancy, was their reluctance to grow through acquisition. In contrast, the biggest European firms have been enthusiastic buyers. Vinci, a French giant, has absorbed several of Britain's biggest builders, such as Taylor Woodrow and Norwest Holst. In the past year it has acquired

China's rise, Japan's fall					
World's biggest construction firms by revenue					
Rank	2012	Country	Revenue, latest year, \$bn	2003	Country
1	China State Construction & Engineering	China	72.6	Vinci	France
2	China Railway Construction	China	68.8	Skanska	Sweden
3	China Railway Engineering	China	68.4	Kajima	Japan
4	Vinci	France	52.4	Taisei	Japan
5	China Communications Construction	China	45.5	Bouygues*	France
6	ACS	Spain	39.7	Shimizu	Japan
7	China Metallurgical Group	China	34.4	Hochtief	Germany
8	Bouygues*	France	34.4	Bechtel	United States
9	Bechtel	United States	32.9	Obayashi	Japan
10	Hochtief	Germany	32.4	Fluor	United States

Source: *International Construction* magazine

\*Construction divisions only

†ACS now owns a majority stake in Hochtief

companies in Canada, India, Turkey and New Zealand.

In some cases Vinci bought firms for their understanding of their home market. In others it has followed a trend among big Western builders of buying specialist consultancies, in areas such as soil mechanics and electrical engineering, to have their expertise on tap. To be capable of bidding for the most sophisticated projects, the Chinese builders may also have to make such acquisitions and integrate them well.

Another thing Vinci and some Western peers have done is become operators as well as builders of infrastructure. In France, Vinci runs bridges, tunnels, airports and the national sports stadium. Xavier Huillard, its boss, says the world has a huge demand for public works that governments cannot afford to finance, so such public-private partnerships will be ever more common. In July, in one of the first such deals involving a Chinese firm, China Communications Construction (CCC) signed a deal to build a highway in Jamaica and run it for 50 years.

The world's biggest builders are getting a growing share of the work: Accenture reckons that between 2002 and 2010, global construction spending rose by 19% but the revenues of the top 20 firms almost trebled. Lower down the league, though, firms from Brazil, India and Turkey are also venturing beyond their home turf, especially to places like the Gulf, where oil and gas money is fuelling a building boom.

So customers are spoiled for choice. A recent power-station project in Namibia got 47 bidders. The 13 firms shortlisted included eight from China plus others from Japan, South Korea, Spain and Italy. In such a crowded market, says Vinci's Mr Huillard, the important thing is not to chase market share: it is better to be fifth or sixth in a particular market but make money. That is a lesson many rich-world construction firms learned the hard way; their Chinese rivals will have to do so too.

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