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Chinese Construction Companies Go Global

Evolving Know-How And Low Costs Help Firms Score Contracts Abroad

By DAVID MURPHY

CHINESE construction companies, using the experience of a 20-year domestic building boom, are raising their profiles overseas.

Last year, Chinese construction companies won international contracts valued at a total of \$17.7 billion, a 17.4% increase from 2002, according to the Beijing-based China International Contractors Association, or CICA, which represents about 1,000 Chinese firms involved in the overseas construction and labor market.

In August, the U.S. subsidiary of China State Construction Engineering Corp. will break ground in New York City's Harlem district on a \$190 million office and retail complex, which includes a 220-room Marriott Courtyard Hotel. The same month, state-owned Shanghai Construction Group aims to break ground on a \$110 million office building also in New York. Other projects Chinese companies are working on or bidding for include: a railway line in Nigeria, a subway system in Iran, hydropower projects in Burma and Malaysia, an oil pipeline in Sudan, an airport and five-star hotels in Algeria, several small projects in the U.S., and bridges and roads in a smattering of other countries.

In total, "Chinese companies have carried out projects in around 180 countries," says CICA's vice chairman, Diao Chunhe.

Stepping Out

Chinese mainland companies have dominated the construction market in Hong Kong for the past decade. The territory has been an important incubator for Chinese companies trying to raise their management, technical and financing standards. At the same time, wages for Chinese engineers and other skilled personnel remain relatively low, keeping project costs down. With this know-how and cost advantage, the Chinese are now becoming increasingly formidable competitors for European, American and Japanese companies that have traditionally dominated the lucrative project-management end of the international construction market in places like the Middle East and Africa. And for the first time, American companies face the prospect of a Chinese challenge on home ground. China State's entry into the U.S. market



AP Photo/Ng Han Guan

is a sign of more to come, industry analysts say.

"Hong Kong has been a testing ground for them," says Ashley Howlett, a Beijing-based partner at Jones Day, an international law firm that specializes in the construction sector. "They are now winning contracts [in the U.S.] on price and technical ability."

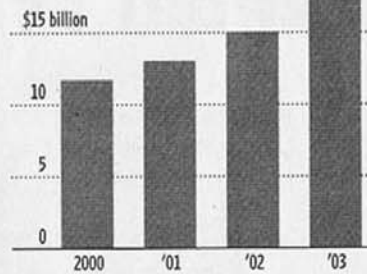
For China State, the country's largest construction company and ranked 16th in the world by Engineering News-Record, an industry publication, the U.S. projects it has won are relatively small compared with what it does at home and in other overseas markets. In addition to the Marriott Hotel project, China State has won general contracting bids on three schools in South Carolina worth a combined \$37 million; and a \$3.7 million subway-platform renovation project in New York.

These projects may be small, but they are a significant shift for the company, which had previously taken only North American jobs connected to the Chinese government or Chinese companies. Such projects include part of Beijing's new embassy in Washington, the Chinese consulate in Chicago, and a refrigerator factory in South Carolina for state-owned appliance maker Haier.

China State's management sees the Marriott and other new projects as opportunities to build a reputation in the U.S. "We had to make a conscious change to move into [U.S.] government infrastructure and private development," says Jeffrey T. Hass, senior vice president of China State's U.S. unit, China Construction America, or CCA. "We're trying to demonstrate that China State can com-

Made by China

Value of newly signed contracts by Chinese construction companies



Source: Ministry of Commerce of PRC

Chinese construction workers tighten the bolts holding together scaffolding at a construction site in Beijing.

Interviews with
Jeffrey Hass
by the

Wall Street Journal
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pete in what is probably the most competitive market in the world."

CCA already is eyeing bigger projects, Mr. Hass says, including a share of the estimated \$1 billion renovation of the United Nations headquarters in New York.

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