

특별강연-Global Construction Trends & Issues



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Introduction

Globalization has provided enormous challenges and chances to the construction industries in business, finance and economies. There are three major themes in global construction trends and issues. The greater uncertainty and volatility throughout the global economy, a new era for the engineering and construction industries and strategies to create a sustainable global business. The uncertainties and volatilities especially are in very trends and concerns recently. The global financial markets have shown several appearances; broad distribution of wealth. The broader distribution of wealth is the higher foreign direct investment goes and is at record levels. Greater connection and interdependency. Many more areas tend to be complicated and require various kinds of technologies or methodologies and web-connected so those kinds of industries and job places are meant to be related and linked so one's results or problems can affect to others. All boats rise and fall with the tide. More than one

trillion US dollars in write-offs. The failure of subprime mortgage in the United States has brought remarkable frustrations to all over the world's economies. Construction industries were far from placed at exception but on the center of the great depressive phenomenon. Tens of hundred construction companies are in danger of bankruptcy. The concern makes us wonder what the near-term future for construction financing is. And as the butterfly-effect of one trillion US dollars, world economy is facing some ripples and shockwaves. Aftermath, no one knows what happens next.

World Economic Trend

Practical responses against the economy collapse have been suggested. For the means of key solutions to overcome today's circumstance, we take either globalization or disintegration. These two phenomenons are aiming exact opposite directions but are happening at the same time which seems even. Each one has separately different features for their own; coordinated central bank policies, reduced trade barriers, low cost movement of goods and services, political stability and one world currency are the world economic trend of globalization. Localized

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monetary decisions, protectionist trade policies, increased cost transportation, war/terrorism and reduced credit are another world economic trend of disintegration. The saying, "World is flat" justifies with globalization but it also gets into its paradox by being disintegrated and individualized.

As the foreign direct investment was mentioned in the introduction, the broad distribution of wealth makes higher the foreign direct investment. According to United Nations Conference on Trade and Development(UNCTAD), annual average of foreign direct investment flows are accelerating into higher pitch. However on the contrary, major losses in the world's leading exchanges are being appeared. Most major exchanges lost 25% to 50% of their value over the past 30 days. Panic and irrational behavior are evident in daily trade volumes. Most of economic indexes are supposed to follow sine-curve so the up and down must be shown gradually. In spite of the rule, recently DJIA(DOW Jones Industrial Average) varies 500 points up and down daily and this situation does not seem normal nowadays. 5000points of DJIA were descended in six months in 2008. London Stock Exchange (FTSE 100) had declined more than 2000 points on July 2008 comparing with January in same year which means six months. And another economic standard Nikkei 225 had fallen over 5000 points in six months either.

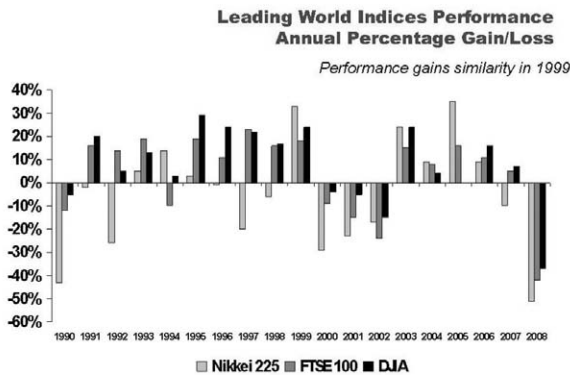


Figure 1. Leading World Indices Performance Annual Percentage Gain/Loss

In year 2008, world economy has confronted with sudden deterioration. Figure 1 shows how severe this happened. The decline is never in harmony with natural up and down system but looks collapsed. Nikkei 225 especially is in extreme depression even worse than 1990's. The seriousness is easily noticeable through Leading World Indices Performance Annual Percentage Gain/Loss in visual graphs.

Construction Finance

Despite the cost of construction is on the rise for current drivers, most banks are not likely to pass on the full amount of any interest rate cuts. Greater equity demands reduce developers' reliance on leveraged deals. Construction cost increases up 10% to 15% plus 5% for financing. Figure 2 presents the ascent of construction spending and generally rising percentage of finance. Worldwide construction spending gains projected despite financial turmoil near-term. New government control/influence in many banks will reduce lending short-term. Consumer confidence in the West is low.

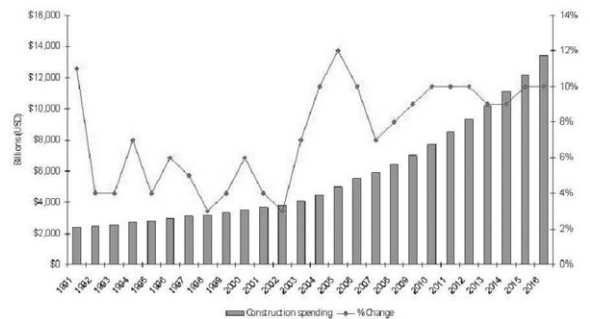


Figure 2. World Construction Spending and Percentage Changes

It is necessary to anticipate what will happen in 2009 and beyond in construction spending. There is going to be regional booms and busts so as we

all know, construction spending declines in the West gradually because the needs will be fulfilled gradually for its proper ready-development.

On the other hand, there will be huge growths in the East in accordance of its necessity for more civilizational desire. Moreover, the lull before a storm is being appeared in construction materials price. The rise of material price are definitely in inflation and it seems never frozen. In the near future we even need to prepare for hyperinflation. In financing a vast chaos will disturb the credit markets.

The Rise of CRIMEA(China-India-Middle East-Africa)

The Merits of undeveloped or under-developing countries' constructional charms are well-known in common sense as the flow of the globe. Therefore aspects are required for changing by looking outside the United State and Europe to emerge markets for future construction opportunities. Top 50 emerging markets represented 1.7 trillion United State dollars in construction spending for 2007 and a five-year compound annual growth rate up 6%. The CRIMEA investors have 4.1 trillion United States dollars to invest and real estate development remains attractive. Skyscrapers and "super tall" structures boom across Asia and the Middle East. Public funds are financing schools, hospitals, low-income housing and other infrastructure.

Besides the United States real estate loans at all commercial banks are declining rapidly. Approximately 3000 US dollars were declined in 10 years and this speed is triple that of 1987 to 1997. The United States government has probably overextended itself to the point that no more credit is available. According to the Federal outlays of the United States government budget graphs, the spending goes up gradually no matter how banks hesitate to pass on the full amount of any interest rate cuts. Interestingly, the United States is involving more and more owed by foreign investors. In conformity to the material of federal debt held by foreign investors of U.S. department of the treasury, approximately 2000 US dollar went up in 8 years comparing to the year of 2000.

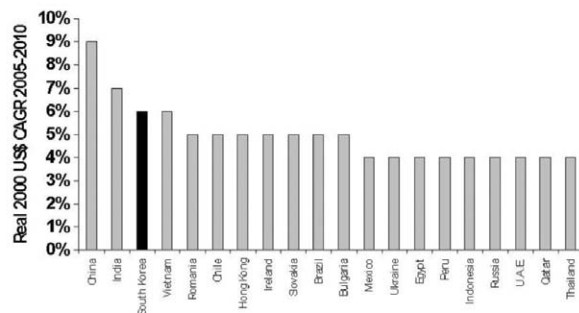


Figure 4. The Fastest-Growing Construction Markets

Situations make realities. All these loans falling, spending and debt rising situations are making the United States construction market zero-growth. Inconsistently, the amount of construction spending in 2007 is in marvelous lead. Nearly 1400 billion US dollars was used in the United States and this is way more absolute than the next rank Japan's 500 billion US dollars. South Korea recorded beneath 100 billion US dollars. Although the United States spent huge amount of money on construction, it did not have any specific growth. Figure 4 shows the reason why CRIMEA is attractive and how red ocean it is. The growth-rate of the United States is not even in 20 ranks.

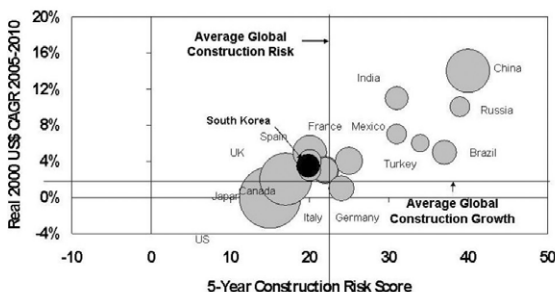


Figure 3. Geographic Market Comparisons

China's compound annual growth rate scored 9% in 2008 to 2016 as the first most promising market. South Korea is in third with 6% of growth.

South Korea's Comparative Market Opportunities

There are three relative attractiveness: growth, size and risk-averse. Comparative market opportunities are varied with those attractiveness and these become the first departures to take achievements in construction markets. In growth-oriented factor, South Korea is the most abundant challengeable nation according to the material of Global Insight. But the size-oriented possibilities are greater in China. South Korea and China are in competence. Other countries are also in the rank which proves Figure 4 as a truth. In risk-averse attractiveness is set for South Korea once more. The rank shows it own novelty by the parametric way of decision for sequence. Well-know developed nations are used to be in this attractiveness; United Kingdom, United States, Japan as well. Fortunately South Korea is in the first order in low risk attractiveness in putting arms around with their shoulders side by side. Conclusively South Korea has the best growth possibility and the second best construction market size with satisfying the exclusion of risks. It surely is specific evident how proper South Korea's construction market opportunity is. More than we thought the result show certain promising numerics.

However, another judging factor occurs; transparency. According to Transparency International, South Korea is not even in the 20th ranks which means money flows or power games are in mere rotten. Transparency International Corruption Perceptions Index 2006 tells us in spite of South Korea's rapid growth, sizen improvement

and risk-free, whether it deserves to be the role model for global construction practices indeed. The most clean nations were granted to Finland, Iceland and New Zealand. A phase is likely to be biased to European continent.

The source of Mistry of Construction and Transportation reports that the Korean construction companies performance are in steady increase in most of nooks and corners of the world. Four times of improvement was accomplished comparing to the year of 2003. It is only based on the foreign construction orders won by Korean firms so it means more abundancy in construction industry in South Korea. Overall growth is surprisingly 63% in only one year.

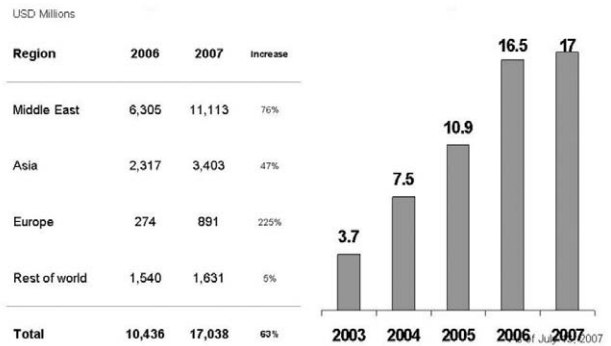


Figure 5. Korean Construction Companies Performance

Conglomerate: Best Positioned for Emerging Markets?

In markets where institutional voids exist, conglomerates can provide an effective second-best solution and it also provides de facto power for emerging market governments. In scale of economies, it is also in decent position. These are the advantages of conglomerates in economy. However overextension and lack of required resources are the representative trouble by executing conglomerates. Moreover the cost of

government patronage and more nimble competitors as the emerging market matures are also actual disadvantages.



Figure 1. Conglomerates' superior Deal making Capabilities

Figure 6. Conglomerates' superior Deal making Capabilities

Zafer Achi approached to conglomerates' superior deal making capabilities in a structure through his book "Conglomerates in Emerging Markets: Tigers or Dinosaurs?".

Geographic Expansion Strategies in International Growth

Most common or successful geographic expansion strategies in international growth are classified in three categories. Strategy one is by client led and this is most successful and least risky. Implication is initiated in strong client relations and perception of sole or preferred provider of an existing service. Strategy number two is joint venture or subcontract. Some governments require joint venture with domestic firm. The strategy provides opportunities to learn a market and establish relationships. Ability to operate in a joint is involved in it. And also the strategy venture or subcontract relationship and identify successful partners. The last strategy, acquisition can be described in required in some markets to be successful and implication depends on the availability of capital. acquisitions, while often considered the simplest and most direct access to a new market, often fail. The two

common mistakes are 1) attempting to change the local culture quickly or 2) assuming you can rehab an underperformer.

Some reasons and grounds address geographic or market expansions to failure. Several common issues are to be explained; wrong market, wrong people(sending operational people to be the point of the spear), no connections or relationships locally, insufficient capital, no exit plan and lack of understanding(making broad generalizations). The last factor, lack of understanding varies many kinds of causes; lack of understanding of accommodations, bonding commercial issues, contract laws, legal system, politics, crossing borders, culture and customs currency exchanges, duties, foreign taxes, logistics and scheduling.

Commonly underestimated assumptions on geographic expansion within emerging markets are categorized in several sorts. 1) Schedule and supply chain is involving the length of time required to get thing done and it sometimes takes days or even weeks not hours to get answers. Internationally almost everything has to be imported. 2) Labor acquisition means the costs to relocate internal staff and acquire laborers and subcontractors. It estimates 2-3 current pay to relocate star talent and cannot be experts only, must have local connections. Local labor may not be available and importing and/or training may be required. 3) Subcontractor availability and bidding may not be able to get multiple bids. 4) Legal system or lack thereof are in degree of corruption and what is allowed(e.g., FCPA, paying agents). Contracts, payments and taxes are included. 5) Ease of knocking off local competition. 6) Sophistication of the client. Rigid and bureaucratic processes to mitigate incompetence.

Right/wrong ways for organization strategies are to be described. The right strategies are "take your smartest, most gifted people." (These are the ones

that can say, I do not want to go) “throw expectations regarding pay out the window”(pay twice, all living expenses plus pay), “use local staffing and management greatest extent possible” (parachuting in management or staff does not seem to work well) and “be decentralized”. The wrong strategies are; being utted in and tried to change culture or systems to quickly, not enough people and centralized system.

To emerge market, cognizing cultural differences are essential. Figure 7. shows the cultural differences among Korea, Japan and the United States investigated by Mistry of Foreign Affairs of Denmark. The table categorized eight sorts for comparing those countries.

	Korea	Japan	USA
Aim	Short-term management	Long-term management	Long-term management
Employment	Lifetime employment	Lifetime employment	Short-term employment
Promotion	Rapid evaluation of performance	Promotion system by long-term evaluation	Rapid evaluation for performance and promotion
Decision making	Decision making by individual and the minor	Decision making by collectivism	Decision making by individual
Responsibility	Individual	Group	Individual
Line of thinking	Individual and the minor	The seniority system	Individual
Compensation	The seniority system	The seniority system	Proficiency salary raise system
Value pursuit	Stability, help and feeling based on humanism	Stability, help and feeling based on humanism	Efficiency, rationality and competitiveness

Figure 7. Cultural differences Korrea, Japan and the united States

Average CEO Tenure Duration in Years

In comparison with world industries' general average CEO tenure duration, Korea's records half of it. The former indicates seven years and the later for three point five years. Which means Korean CEOs too abbreviated to achieve or accomplish some certain results. Although no specific the United States data exists 14% of CEOs stepped down in 2006 (of those that stepped down, their average tenure was 9.4 years). Average longevity for all Fortune 100 CEOs is even approaching to five point two four years, 91.3%

increase in the number of Fortune 100 CEO departures in the five years following Sarbanes-Oxley in 2002 compared to previous five years.

There are go or no go risk assessments in both domestic and international aspects. The domestic possesses 36 criteria which is consist of 100 assumptions and issues. Internationally, 36 domestic criteria now must include the 100 assumptions or issues taken for granted (136 total factors). Standard risk tolerances taken for granted becomes more acute. Secondary services offered domestically may not be ventured internationally.

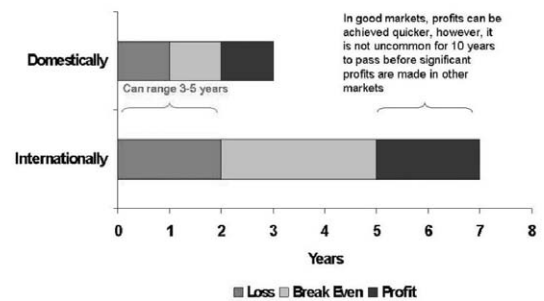


Figure . Timeframes Necessary to Achieve Expected Profits

Additionally, reduced or no-risk contract arrangements such as CM or PM are Western practices that are often discouraged or prohibited in developing regions of the globe. Exceptions exist primarily when the contracting firm provides easily observed value-added services such as financing, operating, furnishing and so on.

In Figure 8., it says profits can be achieved quicker in good markets, however, it is not uncommon for ten years to pass before significant profits are made in other markets.