

# RESEARCH ON FUTURE OF CHINESE CONSTRUCTION INDUSTRY UNDER THE GLOBAL FINANCIAL CRISIS

Yin Yue<sup>1</sup>, Yin Yilin<sup>2</sup>

*<sup>1</sup>Postgraduate, School of Management, Tianjin University of Technology, Tianjin, China.  
Room 403, Building Number 25, Main Campus of Tianjin University of Technology, Hongqi  
South Road, Xiqing District, Tianjin, China, 342067231@qq.com*

*<sup>2</sup>Professor, Ph.D. , Supervisor of PhD candidate, Dean of School of Management in Tianjin  
University of Technology Room 403, Building Number 25, Main Campus of Tianjin  
University of Technology, Hongqi South Road, Xiqing District, Tianjin, China,  
342067231@qq.com*

**Abstract:** With the global financial crisis, Construction industry in China is facing with huge challenges and opportunity. Analyzing Statistical data of Chinese construction industry during 2000-2014, compare factors which influence the construction industry's output. Based on the research, Chinese construction industry is mainly Labor-intensive industries, output is closely related to fixed asset investment and Bank loan. Affected by financial crisis, Chinese construction companies' advance to overseas market slowed down. According to treat and opportunity that brought by global financial crisis, this paper combined SWOT analysis with status of international construction to analyze the Competitiveness of Chinese construction industry, and give some advice about how to improve Chinese Competitiveness under the global financial crisis.

**Key words:** global financial crisis, Chinese construction industry, SWOT analysis

## I. INTRODUCTION

With the outbreak of the US subprime crisis, shattered unbeaten myth of financial innovation, world financial markets have gone from liquidity crisis to the rate crisis to the credit crisis and then to the dollar crisis, until now the worldwide model of economic development crisis. The financial derivatives bubble burst evolved international financial crisis, and "domino" effect produced by it has make crisis expanded from local to global, from financial markets to the real economy, from developed countries to developing countries, caused a serious financial impact to the world. North America, Europe and Japan fall into economic recession; a sharp slowdown in economic growth happened in the vast majority of emerging economies; uncertain and unstable factors in China's economic operation also increased significantly. International financial and economic market turmoil also increases the risk of global construction industry. The international financial crisis is a direct impact on the real estate industry, and as its upstream, the construction industry will be affected.

Since the reform and opening up, China's construction industry developed with the rapid development of the country. 1995 to 2003, China's annual average growth rate of construction output remained at about 22%, accounting for about 7% of GDP. The number of employees in the construction industry is more than 5.2% of the total number of employees of the society. After China became a WTO member, Construction accounted for 3% to 10% of the world gross domestic product, fully demonstrates the importance of China's construction industry. With the development of our national economy to grow, after long-term large-scale training project, China's construction industry has had a remarkable design and construction capability.

Given the impact of the international financial crisis, the contradictory about population, capital, resources, and environment also intensified in this phase. If not handled properly, it could lose development opportunities and do harm to economic growth. For China's construction industry is labor-intensive industries, the current international financial crisis had a severe impact on the sustainable development of the construction industry. In order to this, Chinese government release the top 10 industrial revitalization policy and 4 trillion investment plan. Currently, some research literature made qualitative discussion for the impact of the international financial crisis on China's real estate (Chen, 2009; Li, 2009; Yue, 2008). Section II combined with relevant statistical data with SWOT analysis to summary the strengths and weaknesses of China's construction industry under the financial crisis. And Section III based on results of empirical analysis, Policy recommendations on China's construction industry in the global financial crisis of steady development is proposed.

## **II. SWOT ANALYSIS OF EMPIRICAL RESULTS**

### **A.SWOT Analysis Brief**

SWOT(s-strength, w-weakness, o-opportunity, t-threat) analysis is an effective method for the analysis of the competitiveness of enterprises and competitive environment. Divided from the range, strength and weakness are internal factors of enterprise (IFE); the opportunity and threat is external factors of enterprise (EFE). Among them, analysis of strengths and weaknesses main focuses on internal strength of the enterprise; and the analysis of opportunities and threats focuses on changes in the external environment (economic, technical, legal, political, cultural, etc.) on the possible impact of the enterprise. The aim of SWOT analysis is that companies find their own strengths and weaknesses, in order to avoid weaknesses and seize the opportunity to avoid threats and reduce risk.

### **B. China Construction Industry SWOT Analysis Under Global Financial Crisis**

Faced with increasingly severe financial crisis, China's construction industry is facing opportunities and challenges coexist. Chinese construction industry's strengths and weaknesses show their own competitive ability, opportunities and threats shows that the comprehensive influence power of Chinese construction industry in the domestic market. Through SWOT analysis, research problems facing China's construction industry, put forward constructive ideas, to improve comprehensive strength to participate in the fierce competition.

#### **(1)Opportunities(O) and Threat(T) analysis**

Opportunities: ①The domestic construction market amplify, and a huge reconstruction market after disaster appears. On the one hand, the global transfer of manufacturing to China is bound to increase domestic building opportunities; on the other hand, investment of post-disaster reconstruction in Sichuan will reach 1.67 trillion yuan of funds, housing reconstruction, infrastructure reconstruction, urban reconstruction, industrial rebuilding, ecological reconstruction constitute the main five aspects content of the earthquake reconstruction, and provide a broad market space for the construction industry.

②National Construction Industry policies. Faced with increasingly severe international financial crisis situation, the central government decisively introduced a 4 trillion yuan of investment measures to stimulate domestic demand and stimulate consumption. Local governments have also proposed views to promote the reform and development of the construction industry. Expanding domestic demand policies and measures for the development of the construction industry has provided an opportunity.

③The global financial crisis reduced cost of foreign mergers , increased merger and acquisition opportunities. Chinese construction companies invest more to less developed countries, investment method is mainly set up branches, contract engineering. Taking advantage of the timing that financial

crisis downturn in the international construction market, low cost mergers and acquisitions will shorten the investment cycle.

④ Excess advanced personnel and technology on the international construction market provide powerful resources for the development of China's construction industry.

Threat: ① Upgrading of industrial structure pressure increasing. Chinese construction enterprises' business activities in the global market business activities mainly in Asia, Africa and the Middle East, sharing small business in developed countries and regions. On a competitive basis, mainly low prices and labor export, the projects we contract are basically housing construction, transportation and other traditional industries.

② Under the global financial crisis, various countries have stepped up trade protection and trade frictions heightened. With the deepening impact of the global financial crisis on the construction industry, demand exceeds supply situation exists objectively.

③ Financial risk influence China construction industry in a long period of time. Project financing risks mainly in the interest rate and exchange rate risks. In recent past 2 years, about 300 to 500 billion US dollars projects has been directly affected, estimated renminbi appreciate 2%, and that will bring overseas project contracting industry direct loss of 30 to 60 billion yuan. Especially for a long payback period of export credits, BOT, BOOT projects, the RMB exchange rate reform would produce long-term impact on them(Roche M J , 2003).

(2) Strength (S) and weakness (w) analysis

Strength: ① the domestic economy that Chinese construction enterprises facing now is relatively stable. In order to ensure sustained and stable economic development, since the fourth quarter of 2008, state investment in the construction industry increased sharply, demand that Chinese construction industry enterprises faced is stable.

② Past evolving development that the Chinese construction industry has experienced, accumulating a certain foundation and experience in managing complex situation substances. Whether it is to open up the domestic market is still emerging international markets, China's construction industry completed them in learning and amendment, it has been basically adapted to the emergency situation.

③ Labor advantage. According to the National Bureau of Statistics show that China's existing employees in the construction industry more than 40 million, the total number of construction companies of nearly 60000, relatively low labor costs and management expenses forms a price competitive advantage.

④ Fast development of China's construction industry. It has entered the stage of scale development. China's construction industry has accumulated some successful experiences in traditional construction and installation engineering, petrochemical, transportation engineering and other fields, and have a certain market share.

Weakness: ① Chinese Construction management level is generally low, there is a technological gap. Chinese enterprises are accustomed to extensive mode construction management, emphasis on enterprise projects, engage in redundant construction, and ignoring innovation and transformation, Lack of development and application of new technologies, new materials, new equipment and new technology. So the overall technological level of China compared with developed countries, there is still a big gap.

② Industrial efficiency is low, value-added products is less. Chinese construction enterprises

overcapacity, products and services is non-differentiated, resulting in a significant reduction in average profits of enterprises in the industry. In addition, excessive competition resulting unfair competition behavior, so that construction enterprises increased transaction costs, and further cut value-added building products.

③ Chinese Construction lack of international concepts, ability to bidding, contract management and claims management was weak (Duffy D, Fitz G J and Kearney I D E, 2005).

④ To energy-saving, environmental protection and green building, Chinese Construction lack of knowledge, and pay little attention on the action. After the financial crisis, the United States has put the green building industry as one of the focus of the US economic recovery, while Chinese-related policy and development model in this regard still need to improve.

### **III. SUGGESTIONS ON CHINESE CONSTRUCTION INDUSTRY'S RESPONSE TO THE GLOBAL FINANCIAL CRISIS**

Construction is an important material production sectors of the national economy, and it is closely related to the development of the national economy and improving people's lives. In 2008, Chinese construction industry has also experienced a temporary downturn, but our government is a big government, there is a strong economic intervention capability, and the ability to mobilize resources is very strong. This was reflected in the following aspects:

#### **A. Macroeconomic Policies Maintained Economic Growth.**

Since the fourth quarter of 2008, the central government issued a series of policy to promote the investment and consumption, to maintain economic growth, these measures inject strong power to construction industry to weather the crisis. Then the government announced a major fiscal and monetary adjustment policy, switch to a proactive fiscal policy and a moderately loose monetary policy. For capital-intensive construction industry, these policy help to reduce their cost of capital and expand revenue. In addition, the state has invested 4 trillion yuan to expand domestic demand, in which, affordable housing projects investment, rural livelihood infrastructure investment, infrastructure construction investment and reconstruction occupy 34,500 million yuan, that means to several million new housing units and thousands of medical institutions will be built in the next few years, bringing huge space for development to Chinese construction industry.

#### **B. Optimize the Structure of Industrial Chain, Speed up Technological Progress.**

Beginning in 2010, Chinese economic center of gravity has shifted from the holding economic increased to promote industrial restructuring, in order pursue sustainable economic development. 2009 Central Economic Work Conference's "Accelerating the Urbanization" policy will provide a broader imagination space of the real estate market and construction industry. Urbanization will accelerate infrastructure construction in medium and small cities, and help to break urban-rural dual structure, pulling the overall development of the county economy, construction companies and real estate-related companies will benefit. The next 50 years, China's urbanization rate will increase to 76%; cities' contribution to the whole national economy will reach more than 95%. With the rapid development of urbanization, wider market of Chinese construction industry will comes. Based on that Chinese investment in fixed assets still keeps the high level, that government has sufficient funds, so China's construction industry will maintain a sustained growth.

#### **C. Increased Investment in Science and Technology, With the Development of Science and Technology Driving the Development of Construction Industry.**

In recent years, China's construction industry has made significant technological achievements of more than 8 500, it ranks fifth in 16 classes, the average number of patents in construction industry has an

annual growth rate of 12%(Ding and Han, 2010). Advances in technology has provided technical support in strengthen the quality of construction projects, enhance their market competitiveness.

#### **IV.CONCLUSION**

Natural selection, survival of the fittest. As the world economic integration process, the Chinese construction market's competition rules, technical standards and business methods will match international pace. Conscientiously sum up and learn from international experiences and lessons is beneficial to Chinese construction industry participating in international competition in a wider scope, wider areas and at higher levels.

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