

# Chapter 31

## Study on Development Strategy of China's Foreign Project Contracting

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**Abstract** The growth trend of China's foreign contracted projects will continue, and will promote the export of equipment, raw materials, labor, and promote the development of domestic construction, manufacturing, transportation, finance, and other related industries. However, there are some problems in the development of the foreign project contracting enterprises, from the macro-level point of view; the policy supply is inadequate, insufficient financial support for policy-oriented financial institutions. From the point of view of the enterprise level, China has not established a modern enterprise system fully with international standards, a single business structure, knowledge content, and added value of products and services. Therefore proposals put forward are as follows: Improve the level of foreign project contracting enterprises, standardize corporate governance, raise the level of scientific and technological innovation, and guide the direction of the business, to broaden the field of internal and external cooperation, composed of large enterprises to compete at a higher level.

**Keywords** Foreign project contracting · Market · Business

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## **31.1 China's Foreign Project Contracting the Situation Facing**

### ***31.1.1 International Engineering Contracting Market Trends***

Global economic integration of world economy and trade maintained rapid growth, while expanding the total demand of the international engineering contracting market. According to the statistical analysis and prediction of the Standard and Poor's 150 of the world's major countries and regions, construction investment will reach 5,174 trillion U.S. dollars in 2010. China has joined the World Trade Organization (hereinafter referred to as the WTO), Chinese companies are allowed to enter the WTO members of the construction market, tariff barriers to reduce will bring China's foreign contracted projects reduce the cost of this for our company into developed countries, large construction the market has created the objective conditions [1].

### ***31.1.2 Changes in the Structure of Investment, Improve the Contractor's Financing Capacity Requirements***

Investors in the main structure of the global construction market are increasing the diversification. Governments must open more areas to private capital and foreign capital, especially the construction of energy, electricity, and transportation and other infrastructure projects; at the same time, private capital investment in infrastructure increased significantly, some large-scale industrial projects to provide for the contractor a broad market. Investors, the main changes in the structure change in the way contract, the contractor's financing capacity of the new challenges of the bidders ability to help the owners solve the problem of project funding has become the key to the successful financial strength become international engineering contractors to participate in international competition core elements.

### ***31.1.3 The Scale of the Project Tends to be Large, on Contract Diversification***

The rapid development and application of modern information technology, international contractors on the technical and managerial capabilities, and scope of service continue to extend financial services system is getting more sophisticated projects increasingly large. The traditional contracting approach cannot meet the

international engineering contracting market the needs of the total project contracting methods and way of franchising in the international engineering widely used [2]. Now widely used in the international construction market engineering general contracting and project management methods, including DB, EPC, CM, PMC, and BOT. This means a substantial increase in the profits that might make the general contractor, at the same time, it has also raised management of contractors, technology, and financing capacity to a higher demand.

## **31.2 Opportunities for Development of China's Foreign Engineering Contracting Industry**

China's foreign contracted projects business growth trend will continue, and will promote the export of equipment, raw materials, labor, and promote the development of domestic construction, manufacturing, transportation, financial, and other related industries.

Over the years, the foreign project contracting as one of the important form of international assistance, contributed to promote the country's infrastructure and national economic development in Asia, Africa, and Latin America. It has set up Sino-foreign exchanges and cooperation between the bridges of friendship between the dissemination of our products, "cheap" brand image and the "responsible big country," the image of the country, China's foreign economic and political relations have played an irreplaceable role [3]. Despite the international financial crisis brought about by the adverse effects of China's foreign engineering contracting sector is still pregnant with the "structural adjustment, market extension, mentioning effectiveness" of an important opportunity.

Foreign Investment Statistics Bulletin, China's foreign direct investment in 2008 was \$ 55.6 billion, an increase of 194 % over the previous year; which non-financial sector foreign direct investment of \$ 40.7 billion. In 2009, the latest data of China's overseas investment were not disclosed, figures from the first quarter, compared to a year earlier decline, the main figures of the same period in 2008, including aluminum more than 100 billion \$ in purchasing contracts .

Overseas project contracting enterprises to develop overseas investment activities "going out" innovations, foreign contracted engineering industry an effective way to achieve industrial upgrading, to enhance the operational capability and competitive advantage of Chinese enterprises in international capital. The companies' overseas investment activities of China's foreign contracted projects is closely integrated with the engineering contract, the main ways are: Investment operations involved in the development of hydropower resources and municipal facilities such as BOT, the PPP model in engineering contracting projects for the pilot and then invest in mining resources, building materials pastoral and commercial logistics-related industries, as well as the acquisition or joint ventures, equity participation and design institutes, engineering enterprises [4]. Investment areas to the traditional markets of Southeast Asia, Africa, and other enterprises are familiar with.

The large state-owned enterprises are the main body of the engineering firm to carry out overseas investment business, the advantages of rich experience in overseas operations and reliable information on the screening system, within the project review process and comprehensive risk control measures, for the successful operation of the business of overseas investment to provide support. Private enterprises have high investment enthusiasm, but are not able to capitalize on overseas investment business in the engineering field, so some of the projects are in the investment pattern of the central enterprises and private enterprises, after all, it is a best of their abilities, advantage in a complementary manner.

### **31.3 The Main Problem in the Development of Foreign Project Contracting Enterprises**

The main diversification of China's foreign project contracting and legal construction lag, the lower the degree of concentration of the foreign project contracting industry. Although the state has issued a series of special policies to support the overseas project contracting, the supporting policies in the "big trade" system are to be improved at the same time, to guide policy and legal system building in the forward-looking market trends and international practice there are certain gaps. The legal system is not perfect, our country has not yet introduced the legislation in respect of foreign investment, overseas project contracting and foreign labor cooperation, involving multinational operations such as finance, taxation, credit, foreign exchange, statistical system is imperfect, not yet formed a system behind development of the situation. From the point of view of the enterprise level, China has not established a modern enterprise system fully with international standards, a single business structure, knowledge content and added value of products and services is not high, the lack of technological innovation at this stage of the lack of complex transnational business personnel, at the same time, enterprises are small, comprehensive strength is weak, a single enterprise fund-raising channels, the asset structure is irrational, capital strength and financing capacity. "Going out" strategy implementation, in order to advance the output of construction services in China, the government through relevant policies and business diversification and development of foreign contracted projects. But at the same time, the related policy-making lag, resulting in disorder of operation of the trade, low market concentration, the same level, no difference in the highly competitive, serious waste of resources situation. Small-scale enterprise management, the average turnover at a low level compared with international counterparts, it is clear this cannot be in the capital markets to raise funds to provide support and protection. International engineering contracting market is characterized by the specific circumstances of Chinese enterprises to learn from the experience of the development of foreign enterprises, financing "bottleneck" can clearly find that the biggest constraints to enhance the international competitiveness of China's foreign project contracting enterprises.

## **31.4 Foreign Project Contracting Business Strategy**

### ***31.4.1 The Main Features of China's Foreign Project Contracting***

#### **31.4.1.1 Operating Growing Strength**

“Going to” the implementation of the development strategy, China's foreign engineering contracting companies increased their strength as the country, the status of companies showing a trend of diversification, in addition to state-owned companies, private, joint venture began to reveal the head and feet. International engineering contracting market, Chinese companies have to play in the transportation, smelting and other technical and managerial advantages. With the management and capacity to implement projects to enhance the implementation of the comprehensive capacity of the project gradually gained the recognition of the renowned international companies, especially in infrastructure construction projects in some countries hope that the Chinese companies to compete.

#### **31.4.1.2 Cooperative Development Projects on the Rise**

Resources development and cooperation-oriented projects rapid growth was an important feature of the foreign project contracting industry in 2005. The vast majority of resource development projects the need for infrastructure construction, resources development cooperation at the same time, also led to the development of the project contracting business. For example, oil and other national oil companies to jointly develop Sudan, Kazakhstan, and other markets, which greatly boosted the foreign project contracting business in the oil.

#### **31.4.1.3 Exchange Rate System Reform is Far-Reaching**

According to preliminary estimates, the reform in the RMB exchange rate system, about \$ 300–500 billion in construction projects are directly affected in the engineering contracting industry. Appreciation of the RMB by 2 %, the direct economic losses to the foreign project contracting industry is 3.5–5.5 billion \$. With the continuous advance of the exchange rate system reform, in addition to the direct economic loss of the engineering contracting industry, will also bring about indirect effects in other ways.

### ***31.4.2 The Development of Countermeasures for China's Foreign Project Contracting Enterprises***

Face of economic globalization, foreign project contracting enterprises must be a correct understanding of the difficulties facing efforts to increase the technology content and management level, the initiative to meet challenges, overcome difficulties brought about by the financial crisis to stand in the international market competition undefeated. In this process, the developments of countermeasures are given below.

#### **31.4.2.1 Differentiation Strategy**

Differentiation strategy is in the production process, and give full play and the use of a part of their product or service unique to all different from other company's products or services advantages as a guide sustainable and stable development in the direction in today's many industries. The difference has become the holy grail of some companies in the market. International engineering contracting companies should also take a hard look at its own resources and competitive conditions, allocation of resources differentiation theory docking target market, and strive to maximize efficiency; research and market segmentation pattern, play to their core competitiveness and comparative advantage.

#### **31.4.2.2 Foreign Project Contracting Enterprises Should be Further Enhance**

The ability of business public relations, financing capacity and project management capabilities, and strengthen the design, consulting, construction and operations management capabilities, to familiarize themselves with and master the standard system in developed countries, efforts to enhance the strength and grade and set a good brand image in the international market, building long-term competitive advantage, form a prominent feature of a group of professional, technical strength, internationally competitive large enterprise groups of foreign project contracting, to achieve the leaping development of China's foreign project contracting enterprises.

#### **31.4.2.3 Standardize Corporate Governance, and Raise the Level of Scientific and Technological Innovation**

Internal tonal contracting methods, the profound changes in today's global construction market, introduced a package of turnkey engineering mode, and band owned contracting methods have been widely used in large international projects in these modes. Large-scale contractors to manage increasingly scientific,

information technology, standardization, and technological innovation by the foreign project contracting business, electronic management, quality norms (ISO 9000), environmental management (ISO 14000) and occupational safety and health management system (ISO 18000) together constitute the a more comprehensive global unified business management standard system. This requires the construction enterprises in Liaoning Province, abundant capital, advanced technology and personnel are available; modernize the management of well-known enterprise groups to create a unique product and brand.

#### **31.4.2.4 Guide the Business Direction**

Foreign project contracting career development process of our government in a targeted manner to guide enterprises to make strategic adjustments in the target market, the mode of operation, scale of operation, to avoid major fluctuations in business development, and lay a solid foundation for the development of the company, enhance the company's operating capacity. The first is the strategic shift of the regional markets. In the mid-1980s, in the face of a severe recession in the Middle East market, the former MOFTEC timely to enterprises that target market should be transferred to Hong Kong, Macao and Southeast Asian countries from the Middle East, and through the Chinese embassy in Southeast Asia to help businesses understand the local market, support enterprises to participate in local projects bidding.

Just a few years, under the guidance of government departments, through the joint efforts of enterprises, our businesses successfully transfer of business objectives to the Asian market. Since then, our government has proposed developing markets in Europe and "diversification strategy", provides guidance for the timely adjustment of marketing strategy. Initially for up to 10 years time, the external economic and technical cooperation established in the office on the basis of the foreign aid of the various departments and localities as the department, the window to the outside of the region's business. Window company funds, lack of manpower, difficult to carry out the limitations of intermediary business will soon be exposed. In this regard, the former MOFTEC, the timely submission of the direction of foreign economic relations from the window company change to the operating entity business. Guide foreign economic company from the start with project management, independent management and engineering contracting projects, and enhanced benefit-sharing, accountability, powers and responsibilities of interest linked to the total package and subcontracting relationships to establish the status of the foreign economic company, with the construction of business entities foreign economy and the company's competitive strength. It can be said that the Foreign Economic Company successfully completed the transition is at this stage, Furthermore, the changes from the production management to capital management.

The face of highly active scene of the economic globalization of capital markets, the contact of the long-term capital shortage restricting the reality of business development, former MOFTEC, in conjunction with relevant departments to guide

foreign economic relations company specializing in engineering and construction business to the investment and engineering and building construction both change to enable enterprises to access to international capital markets to enter Hong Kong and other places, and the opportunity for success in the domestic stock market listing. In a number of enterprises build overseas, Dalian Foreign Economic Corporation, Northern International beach-goers of the capital market, has laid a solid foundation for the company's business development and business growth. Finally, there is a big help, supporting the superior support the strong. Investment in large projects, long duration, the risk, but large, very large projects are often competitive small and medium-sized project so intense, prone to economies of scale. In order to promote China's enterprises to grow and develop, to enhance competitiveness in the international engineering contracting market, with the reform of China's state-owned enterprise restructuring, the Commerce Department in conjunction with the Ministry of Finance and other departments issued a policy loan interest subsidy support for large projects, and achieved good results.

#### **31.4.2.5 Take All Precautions and Risk Control**

They insist on risk prevention in the first place, so that a planned, step by step, slowly and surely, struggling to explore the international market. The first is to strengthen the tender management, so that prior to control risk. Selected to tender for: Select a relatively stable political situation and she was more familiar countries and regions Project bidding, according to the process characteristics, first understand the competitors in the host country's labor policies and circumstances, the feasibility analysis of the key factors of the immediate and long-term goals. Track from the project, bidding to determine the key management personnel of the project, and to study thoroughly understand the owners tender, the terms of the contract on the project, the tender price structure, international (including the project host country), equipment, materials and other in-depth research and market surveys Based on this rationale, determine the price level. The second is to strengthen contract management, and clear the obligations of mutual responsibility and risk. Should be adopted in accordance with international practice, the international project bidding process, such as unreasonable or imperfections of some provisions of the contractor's tender documents, contract negotiations, the IDIC terms of the contract, ask to modify or supplement certain conditions. The company's total contracting Jordan compound fertilizer project, the contract.

#### **31.4.2.6 Broaden the Field of Internal and External Cooperation, Composed of Large Enterprises to Compete at a Higher Level**

World, the regional economic mutual penetration and mutual integration to speed up the economic complementarily between the developed and developing countries is more pronounced, both developed and developing countries to further



strengthen cooperation has become inevitable in the field of international project contracting. The rapid development and application of modern information technology provided technical support for Tran regional cooperation. Greatly improve the ability of financing through corporate mergers and scale management, quick access to more technology patents. Through the merger of another local company or form a joint venture with local companies to quickly explore the international market and local companies formed a joint venture can also be effective to bypass trade barriers of the host country. Foreign engineering contracting company should be sought through mergers, alliances and asset replacement, regional, cross the formation of large foreign project contracting group, improve the comprehensive competitiveness in the international market. Selectable China has a comparative advantage in the industry, its competitive enterprises as a leader, to form a comprehensive large-scale enterprise groups, foreign investment, consulting, design, project contracting, equipment and technology exports, the export of labor services integration. Through the effective operation of the capital reorganization, merger, listing etc. to accelerate the development of the enterprises themselves.

#### **31.4.2.7 The Project Manager, Professional, Occupational, and Social Should Actively Promoted Implementation**

The project manager responsibility system is an important result of the construction project management system, it is to improve project quality, to ensure safety in production, to raise the overall level of project management, orderly new management mechanisms and systems play an important role in the construction industry. Government should continue to increase the guidance in this regard; in particular the implementation of the Registered Architect of the new system should be taken to ensure the timeliness of the results of the reform and policy continuity. In conjunction with the implementation of the system of registered construction division, to build the brand of project contracting, project manager, neither as in the past project manager qualification attach too much weight, nor can the project manager simply limited to wash their hands within the enterprise, but rather to the project manager truly professional, professional, standardized management into the socio-professional, in order to facilitate the construction of the improvement of the level of project management and project managers widely and used by the owners.

### **31.5 Summary**

With the further development of economic globalization, the international engineering contracting market competition is increasingly fierce, the Contractor is undergoing a profound change, and developed countries contractor by virtue of the advantages of capital, technology, information and management occupy the

high-end market and high-end business monopoly position. At present, China's total enterprise business, industry concentration is low, there is the phenomenon of vicious price competition, increased security risks, and other issues have become increasingly prominent. The following aspects of work should mainly be a good job. Level of technology to improve labor cooperation China's vast population, but only the potential advantages of China's foreign cooperation of labor service, put it into real competitive advantage lies in improving the quality of the labor force, increase the technological content of the labor service cooperation, not only to our country cost-effective level of that activity, but also to adapt to the international labor market changes. Therefore, we must develop the technical services, on the one hand, to strengthen the professional and technical training for staff of all walks of life and continuing education, reform, update the training curriculum to improve the knowledge structure of the labor personnel, on the other hand to develop labor service cooperation new areas to focus on expanding the labor market, the high efficiency of the high level of Southeast Asia.

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