

Construction Management Practice of Joint-venture Projects In Shanghai and China

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Abstract

As the largest city in China, Shanghai is developing rapidly. A large amount of foreign capital has been invested in Shanghai every year. Because of risk and policy tendencies, most of foreign investment is combined with local companies or government. Following with foreign investment, more and more foreign contractors come to compete for the joint venture projects. In order to win a joint venture project and keep it go smoothly, a contractor must obey the national and local laws. This paper describes a typical construction organization and some characteristics of joint venture projects. Also some questions in practice are discussed in the end.

Keywords

FDI, Joint Venture Project, Construction Management, Contract

1. Introduction

As the reform and opening up going into depth over the past two decades and more, China has been constantly improving its FDI utilization in terms of scale and quality. By the end of July 2001, China had cumulatively approved 378,000 foreign funded enterprises with a contractual value of USD 717.01 billion, of which USD 372.83 billion had been actually paid in. 400 companies of global companies have their branches in china in 2002. Especially from 1992, Shanghai has been pursuing opening policies in an all-round way. The tremendous economic increasing potentiality has made Shanghai a prior choice in the world-famous multi national corporations' strategies. In 2002 foreign directly invested 50 billion US dollars, 2086 projects in Shanghai.

Besides industry projects, real estate is an important field which foreign have invested. Shanghai bravely absorbs and utilizes foreign investment by means of joint venture in reforming old districts and developing city infrastructure. 2.8 billion US dollars have been invested in different real estate projects, and more and more significant infrastructure projects have been finished. Also, by means of land renting Shanghai has gotten 9.5 billion US dollars.

Following foreign investment in China, many foreign contractors come to China successively, taking part in the construction management of foreign projects, World Bank projects, etc. Statistics suggested that there were 24 foreign companies (including those from Hongkong, Macaw, and Taiwan. the same as below) which had been approved of contracting projects in China by Ministry Of Construction, and they were contracting 38 projects in June 1995. By end of 1995 there were more than 70 foreign companies which had been approved or agreed by Shanghai Construction Committee of contracting projects in Shanghai.

In order to regulate construction market, improve investment circumstances and utilize foreign investment effectively, Ministry Of Construction and Shanghai municipal government have strengthened macro management of joint-venture or individual projects, implemented qualification management in foreign contractors.

2. Development and Policies

The construction companies, which are able to bid for projects in China, can be classified as: domestic construction companies, foreign construction companies, joint-venture construction companies. All construction companies must be supervised by local Shanghai Construction Committee and go through the related procedure before bidding for a project in Shanghai construction market.

The domestic construction companies, which are registered and recorded in Shanghai Construction Committee, can take part in completing a contract of a foreign, domestic or joint-venture project.

Early at the beginning of 1980s, when Shanghai started opening up and foreign capital flew into Shanghai, the foreign construction companies from Hongkong, Japan etc. began to bid for projects in Shanghai. In 1980s, Ministry Of Construction or Shanghai Construction Committee did not set up a clear policy for foreign contracting invested projects. Only a Shanghai government's document in 1985 referred to admitting foreign contractors to bid for projects in Shanghai.

In 1990s, as Shanghai Pudong New District opening to foreigners and national economy increasing rapidly, a large amount of foreign capital began to be invested in Shanghai again, and construction of projects especially joint-venture projects reached the climax. In order to standardize the management activities of foreign construction companies, and provide better market circumstances for foreign investment, Ministry Of Construction started to carry out "The temporary rules of qualification management about foreign companies contracting projects in China " in 1994. Then Shanghai Construction Committee laid down "Several stipulations of qualification management about foreign companies contracting construction projects in Shanghai". According to these rules, the construction projects contracted by foreign companies in Shanghai are:

- The project invested all by foreign capital or endowment;
- The project loaned by international financial organizations and inviting an international public bidding;
- The joint-venture project which can not be contracted only by domestic companies in technology;
- The domestic invested project, which domestic companies are difficult to build alone because of special situations, can be constructed by foreign companies associated with local construction companies;
- The joint-venture project in which the foreign investment is beyond 51%.

To meet the needs of joint venture construction companies, Shanghai Municipal Government issued

“Temporary stipulations of qualifications about joint-venture construction companies or decoration companies in Shanghai” in 1992, Ministry Of Construction issued “Several stipulations about foreigner investing construction industry companies” in 1995. Depending on these regulations, a foreign monopoly construction company would not be admitted to be set up in China. A joint-venture construction company should mainly compete for overseas, foreign, or local projects invested by foreigners, and some local projects. If the joint-venture construction company do not take any overseas or foreign projects for two years in succession, Shanghai Construction Committee can deprive it of qualification in Shanghai construction market.

Shanghai Construction Committee encourages overseas contractors which own money, technique and management come here to contract projects, a lot of overseas companies come to register in Shanghai market. There were more than 70 overseas contractors at end of 1995, those distribution is showed in figure 1.

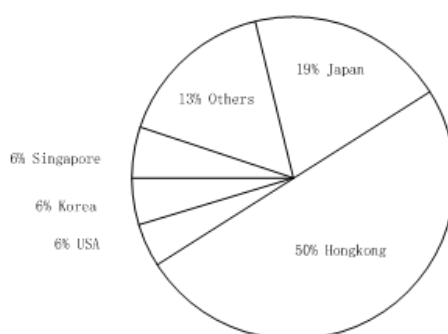


Figure 1 Distribution Of Overseas Contractors In Shanghai (December, 1995)

As a member of World Trade Organization, Chinese Government has promised in Construction field that foreign companies can set up joint venture, monopoly construction companies in China, and those companies will enjoy the same right as local construction companies.

There were 383 engineering contracted by foreign companies in 1998 and 1999. Sum of those contracts was 4.5256 billion US Dollar. The contractors and contracting sum are showed in Table 1.

Table 1 Sum of Construction Engineering By Foreign Companies In China, 1998 and 1999

From	Number of Construction Engineering	Sum of Contracts (Million USD)	Percent (in Number)
Hongkong, China	209	871.178	19.25%
Japan	88	705.66	15.6%
Singapore	19	113.158	2.5%
Italia	10	619.71	13.7%
French	5	386.197	8.54%
America	9	873.765	19.31%
German	9	440.08	9.73%
Taiwan, China	18	184.262	4.08%
South Korea	6	255.123	5.64%
Others	10	75.493	1.67%
Total	383	4524.624	100%

In 1998 and 1999, among these engineering, contract sum of construction engineering by foreign donation was US\$ 1.75 billion, 38.72%; contract sum of construction engineering by international money organization loans and international opening competition was US\$ 1.361 billion, 30%; Joint venture contracting sum is US\$ 1.273 billion, 28%.

3. Construction Organization Forms

Since most of foreign capital is from Hongkong in Shanghai, contractors are mainly from Hongkong. During construction management of joint-venture projects, they accord with English or international general contract terms. Their management forms are distinct from Chinese.

Construction of a joint-venture project (foreign investment is major) was organized as follows:

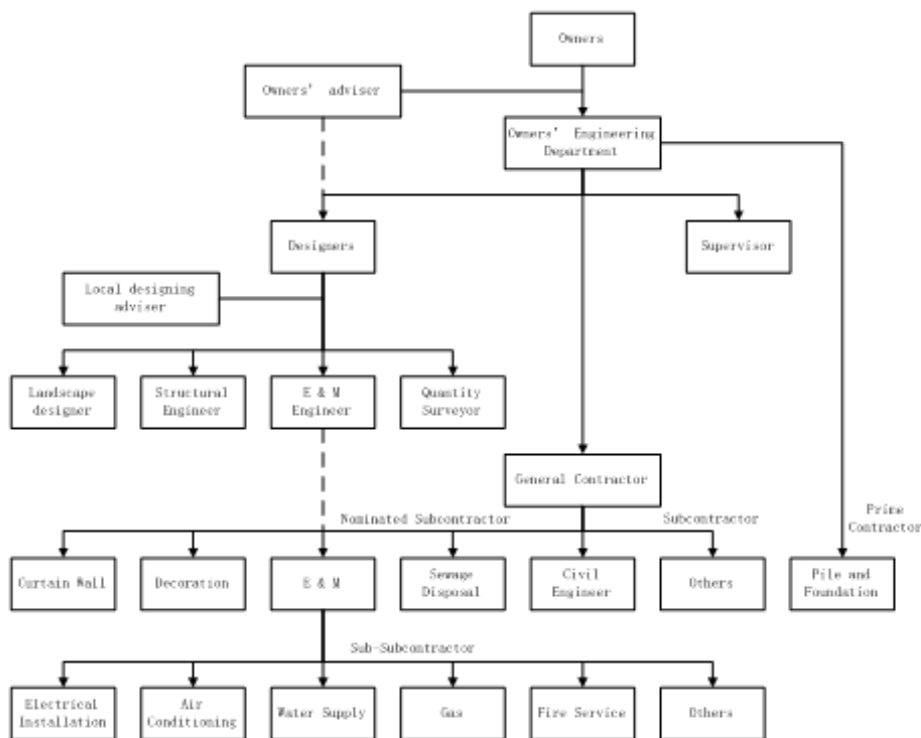


Figure 2 Construction organizations of a joint-venture project

The project is a typical joint-venture project which was invested by two Hongkong companies and a Shanghai real estate company. They form a real estate company to take charge of the project management. The general contract of this project is mainly from FIDIC, but adjusted in according to practical conditions. Allowing for the importance of on-time completion and avoiding out-of-control schedule of this project, the contract emphasized the schedule management.

The project owner's adviser which is a foreign company is proficient in Shanghai construction market and international construction market. Architecture designer, landscape designer, structural engineer, E&M engineer and surveyors are foreign companies. In 1986 Shanghai stipulated that the foreign designer must invite a local design company to be a designing adviser when the foreign designer alone contract the designing task of construction project, also the project's surveying work should be completed by a local surveying company. The related documents also stipulate that foreign companies must abide

by Shanghai construction standards and codes. If needing to introduce foreign related standards, they must get an agreement of Shanghai Construction Committee before. So in this project the local designing adviser is very important, and much architecture or structure design was completed by the local design company.

Many companies, from home or from abroad, bid for this project. A certain foreign company which had managed projects in Shanghai for many years was chosen at last. Before submitting the tender, it associated with a local state-owned construction company, which will be its main subcontractors in fact. This combination could benefit each other. The local state-owned construction company was familiar with Shanghai construction market, kept its credit and possessed a high technique and management level. The foreign company was familiar with international construction practices and might win foreign invested projects more easily. In fact this foreign company had ever succeeded in bidding for several other projects by this association.

Though there are many domestic construction companies or installation companies, their construction quality or management is diverse. To ensure succeeding, the owners or general contractors should choose domestic subcontractors carefully. The best choice was the construction companies who can keep their credit, possess technique and management ability, especially these companies who have practices in one or more foreign invested projects, or are familiar with international construction regulations and circumstance, because the management system of domestic construction market is different completely from international circumstances.

4. Characteristics of Foreign Contractors in Joint-venture Projects

A related department has inspected extensively foreign contractors and found out distinctive characteristics of foreign contractors in managing joint-venture projects:

(1) These foreign contractors all set up registered agencies and administrative organizations according to agency's responsibility and provide administrators and technicians. Most of agencies coordinate their companies or help to bid for projects in China.

(2) Many contracted projects are large and their technology is complex. Also there are many small projects which are mainly decoration of houses or E&M projects, and the small projects are mainly contracted by Hongkong companies. These small-scale contract companies amount to about 50% of the registered foreign contractors in Shanghai.

(3) They construct projects mainly in general contracts, which are mostly signed abroad between owner and contractor. They appoint some administrators and technicians to manage the general contract on the sites, and individual works are subcontracted as a rule. When choosing a subcontractor, they mainly negotiate the tender, not invite it openly. Because of being unfamiliar with circumstances of the construction markets, there have ever been some problems in management.

(4) These foreign contractors are better in management and quality, and the projects are equipped with safe facilities on the site. They set a good example. But the minority are bad in management and do not keep up with requirement.

(5) Their services are perfect after completion, and they provide owners with technical services also.

Though the inspection results are satisfactory, there are still some of foreign companies are unfamiliar with Chinese and local administration laws, and this un-familiarity may result in troubles and disorders in

construction management.

5. Results

Compare with abundant foreign investment in Shanghai and China, the quantity of foreign contractors is little. But some of the foreign contractors in Shanghai are large multinational companies. With Chinese economy booming, investment circumstances improving, and being a WTO member, more and more foreign contractors have been coming or will come and set up agencies in Shanghai and China, and will invest or bid for projects.

The middle or large foreign contractors, which have come, have two obvious tendencies in Shanghai:

- Assisting the project owners and managing the project;
- General contract format in the project.
- Also there are some strong foreign contractors beginning to invest the projects when contracting it.

If not familiar with Shanghai construction market, the combination bid is a useful ways to reduce risks. Because of strong competition among domestic construction companies, a local subcontractor might be chosen easily. The local subcontractor not only can reduce project contracting risks effectively, but also can handle other checks or limits from related departments because he knows local laws and regulations well.

It is believed that the foreign contractors will have some priority to bid for foreign invested projects, because they are familiar with international regulations, own much money and a lot of management knowledge, offer perfect services to owners, and also can reduce project risks.

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