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property



Left on their own

It is no surprise that Malaysian contractors going overseas and experiencing success are few and far between. This is mainly attributed to the humongous effort and risk to cross borders, if contractors are left to their own devices.

While big players are able to expand their portfolio internationally, mid-tier ones can find themselves being left behind. Moreover, when Malaysian property developers or construction companies venture overseas, they often do not source for Malaysian-made construction materials. In contrast, China-based property companies usually leverage on their own domestic building materials, boosting their construction sector. **P.20-21**



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Left to their own devices

- **Contractors** who venture overseas and compete for projects have been doing so quietly and on their own
- **Government** help is limited as it cannot compel developers to employ Malaysian contractors for projects abroad
- **Many** of the construction jobs won overseas are via business-to-business links rather than government-to-government



by Joseph Wong

For many Malaysian companies, going abroad and establishing a firm presence there is accepted as the pinnacle of success. That is certainly true for the Malaysian construction sector.

Despite the lure of venturing overseas, the number of contractors who actually do so barely breaches double digits.

Those that have successfully established a strong presence are the bigger players who have moved into developed nations like the UK, Australia and Singapore.

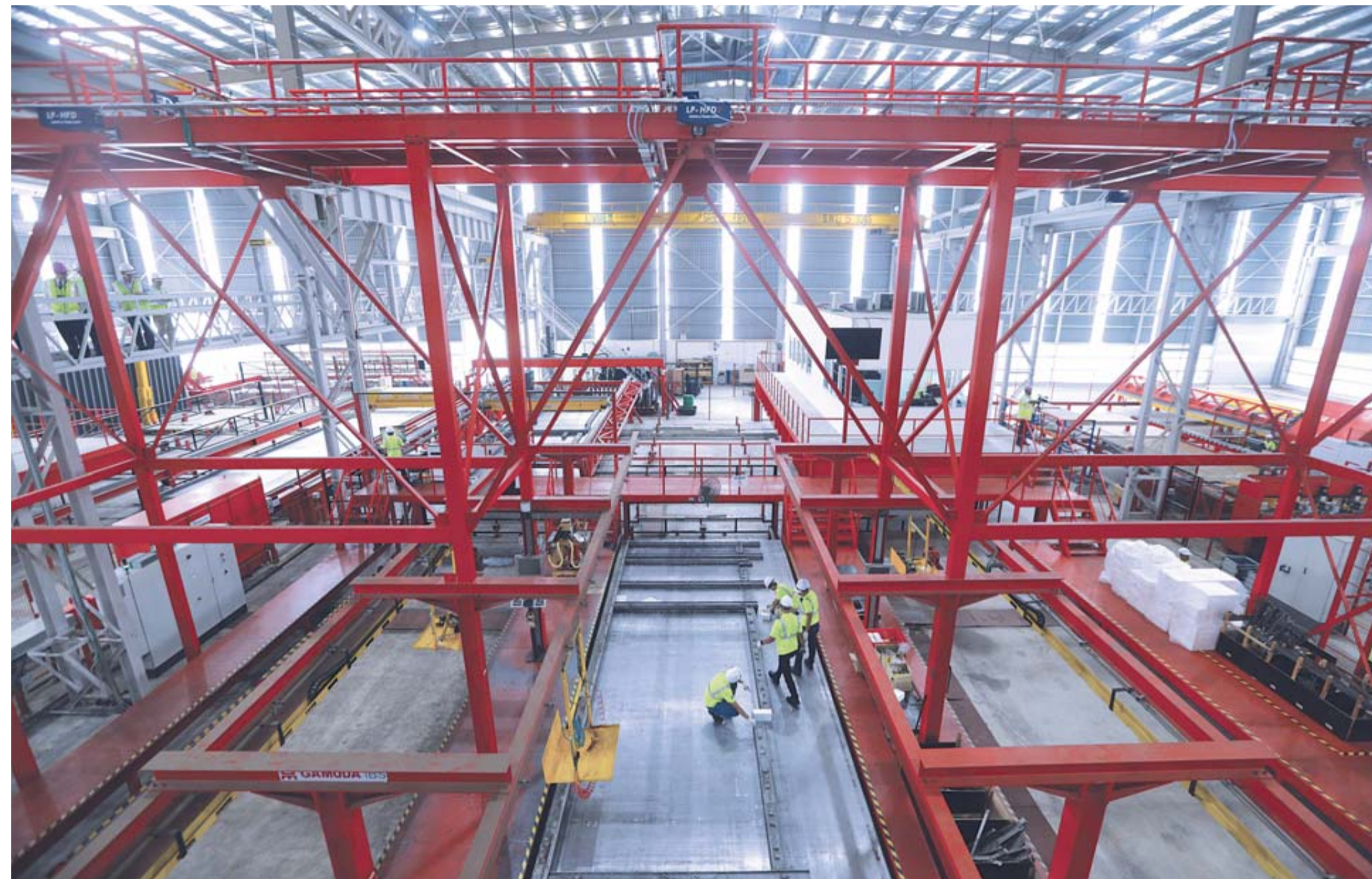
They are also mostly property developers, rather than purely construction corporations. And they have ventured abroad mostly on their own.

"Our problem is that we don't shout out our achievements [so many have fallen under the radar]," says Matthew Tee, president of the International Federation of Asian and Western Pacific Contractors' Associations (IFAWPCA).

While many have been successful, some have also suffered setbacks. "There are those who have gotten their fingers burnt and have retreated home," he tells *FocusM*. "Of course, there are the 'big boys' like Sime Darby [Property Bhd], SP Setia Bhd, IJM [Corporation Bhd] and Eco World [International Bhd] who have successfully gone overseas," he notes.

However, their successes have not generated spillover benefits for Malaysian construction players.

"How many of these big players have taken along [Malaysian] contractors?" Tee asks, lamenting that most of these property developers do not use Malaysian-made construction materials or the services of Malaysian construction players.



Gamuda Bhd boasts of Malaysia's first automated robotic Industrialised Building System (IBS) facility

Tee, who is also Master Builders Association of Malaysia (MBAM) past president and Bina Puri Holdings Bhd group executive director, opines that the government may need to do more to get local contractors to gain jobs overseas.

He of course acknowledges that the Malaysian government cannot force the private sector to bring local contractors overseas. However, for government-linked companies (GLCs), it is a different

story. "The government can instruct GLCs to bring over some of the reputable contractors when they bid for contracts overseas. It is easier for this to be implemented," he says.

Contribution to GDP

The local construction sector is no small fry in terms of contribution to the national gross domestic product (GDP). This increased to RM14.1 bil in the first quarter of 2018 from RM13.4 bil in the

fourth quarter of 2017.

From 2010 to 2018, its quarterly GDP share averaged RM10.3 bil, reaching an all-time high of RM14.1 bil. The lowest was RM6.5 bil in the first quarter of 2010.

With such potential, it makes sense for the local construction sector to grow beyond Malaysian shores. Moreover, it is a natural progression due to business expansion and the efficient utilisation of available resources, according to Tee.

Other reasons to go overseas include long-term profitability which includes protecting shareholder interest and diversifying business risk, improving competitive advantage and gaining government support and initiatives.

"There is also a negative correlation between local and international projects; the more local projects that companies win, the fewer the international ones they are awarded, and vice versa," he notes.

Put another way, more contractors are willing to venture overseas when there are insufficient contracts awarded in Malaysia, says Tee pointing out that business survival instincts push these contractors forward.

Helping hand

Construction Industry Development Board (CIDB) chief executive Datuk Ahmad 'Asri Abdul Hamid points out that only a few developers and contractors have gone overseas and were successful.



SP Setia Bhd's Seri Jati affordable apartments were constructed using IBS



Government may need to do more to enable local contractors to go overseas, says Tee



Only a few developers and contractors have gone overseas and were successful, says Ahmad 'Asri

tions and capacity.

Trade trends show that almost two-thirds of construction participants and responders have projects running over budget. About 87% of them had projects running behind schedule.

Hence, the risks of project defaults or unfinished work can rise considerably. In addition, nearly 80% of construction firms are said to experience occasional or frequent material and labour shortages.

Significant player

Despite the challenges, the local construction sector is significant in terms of labour force participation, employing a sizeable chunk of the working population in Malaysia.

Statistics Department (DOS) data show that of the 1.027 million construction workers in 2015, general workers made up 2%, clerical 3.8%, technical and supervisory 4.1%, management and professional 3.7% and operative staff 86.3%. However, the figures are dynamic as it could increase or decrease due to the peculiar nature of the construction industry.

However, these figures would increase if the labour forces in the related industries that produce, process and transport construction materials, components and services are added.

Consultancy firms involved in the construction industry are also not included in the equation. The statistics presented in this report refer only to construction work done by registered contractors.

Data for reference years 1963-1970 refer to the principal statistics of the construction industry in Peninsular Malaysia while data since reference year 1971 refer to Malaysia. Since reference year 1998, the DOS survey covers establishments with the value of construction work done of RM500,000 and above.

Therefore, if the workforce of those not directly working on sites are added, the contribution of the construction industry could be in the region of 10% of the total workforce.

Hence, given the size of the industry, it would be ideal for Malaysian contractors to export their services and expertise. While going overseas is a positive trend for the country economically, not many companies do so. Price

players do not have]," he says.

Hence, small Malaysian players would not be able to compete. These must at least be the mid-tier ones to have a chance, he says.

"They have to be prepared. They will have to compete with the 'local' players who have many advantages over the Malaysian ones," he says. Local players in foreign nations know who the local authorities are, how the business works in their own countries, and where to source building materials at reasonable prices, he notes.

"For Malaysian contractors venturing overseas, they must have something to offer [that local

Manpower issues

THE reliance on foreign workers in Malaysia is not one that will likely be easily solved even as the government through agencies like the Construction Industry Development Board (CIDB) push for the adoption of the industrialised building system (IBS).

Many nations face the same issue, says Master Builders Association of Malaysia (MBAM) past president and Bina Puri Holdings Bhd group executive director Mathew Tee.

Even Singapore, which is known for its extensive use of IBS, has manpower issues, he contends. Statistics show that as many as 80% of the construction firms in Asean experience occasional or frequent material and labour shortages.

"One way that Singapore is tackling this is by ensuring that its foreign workers have multiple skills and can do more than one job. For example, the bricklayer is also the plasterer," he says, pointing out that the main difference is that its reliance is more on professionals and highly trained and skilled workers.

"Perhaps, Malaysia should also look in this direction," he argues. "One reason why it is difficult to implement IBS is cost, which could substantially reduce the earnings of contractors and developers."

If it is cheaper to use labour, then many would opt for it because at the end of the day, the bottom line that matters, he adds.

"Even developed countries tend to rely on foreign workers; it is an inescapable fact," Tee says, pointing to Singapore and Hong Kong as examples.

According to him, it is almost impossible for Malaysia to undertake major construction activity without relying on foreign labour. Which is why developers and contractors have been fighting for a better policy in regulating and managing the inflow of foreign workers than what is in place, he adds.

That said, Tee concedes that there has to be initiatives to rely less on foreign workers. Whether this means outsourcing prefabricated materials or automating the industry remains to be seen, he adds.

Of course, there are those who champion IBS and other improved methods like modular construction, as is being used in Country Garden Holdings Ltd's US\$100 bil (RM403.43 bil) Forest City project in Johor.

CIDB chief executive Datuk Ahmad 'Asri Abdul Hamid says that in Johor, there are companies supplying the prefabricated constructs to both the Forest City development and Singapore.

"Modular construction is already here," he insists, pointing out that it is only a matter of adoption by the industry.

increases, recent global tariffs on material goods and labour shortages pour cold water on companies that want to go abroad. Some of them also lack sound risk management strategies to even consider going overseas.

"Contractors will always opt for the cheapest method and that usually means hiring foreign labour rather than investing in new technology like IBS (industrialised building system) which is both costly and may not be applicable in other construction projects," says Tee.

However, this has not hampered a handful from testing the waters overseas.

Breaking the ice

"Most of them do it on their own accord. They hook up with counterparts and send out 'feelers' but the risk factor usually stops them from going out," he says. "How many local contractors even go over to East Malaysia let alone overseas?"

There is no simple solution to this challenge. However, international conferences and exhibitions like the IFAWPCA Convention, which will be held in Kuala Lumpur for the third time on Nov 12 to 16 this year, is one of the ways for the local contractors to participate and 'break the ice' with their international counter-

parts, says Tee. Holding international events like this will help push the industry forward.

"With conventions like IFAWPCA, contractors are able to meet and interact with the participating foreign companies. They can discuss ideas and even end up as working partners," he points out.

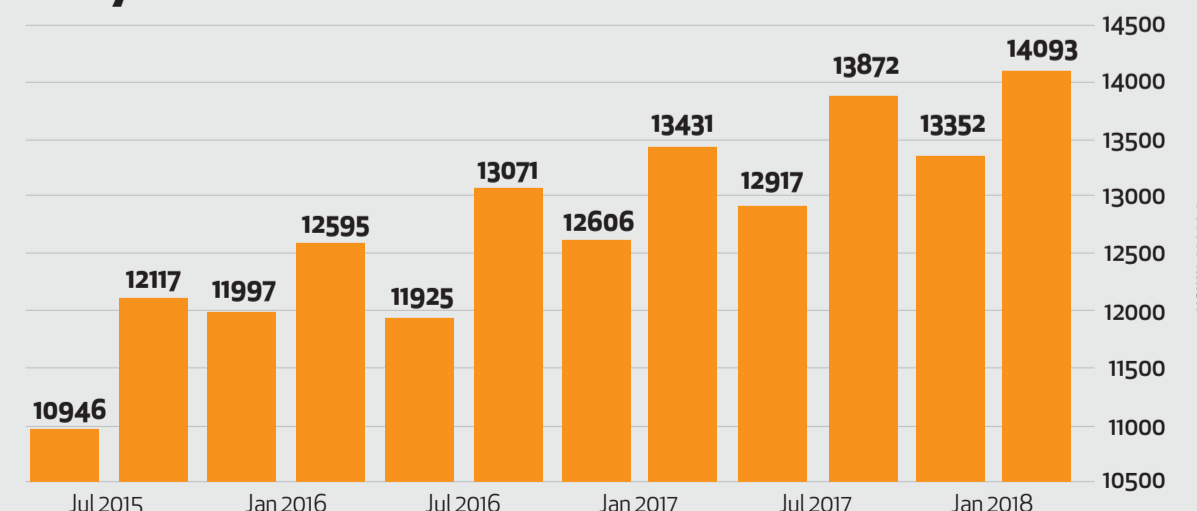
The IFAWPCA Convention is expected to draw 700 companies from 20 countries and over 5,000 industry players. Tee says local contractors will have many opportunities to expand their networking overseas via the event.

Construction companies that have already established themselves will continue to source for opportunities in the nations they have entered, while construction lenders will continue to seek either the same or greater volume of deals, he says.

Tee says that going overseas when the sector is slow in Malaysia makes sense as it provides an opportunity for contractors to seek new sources of income. Moreover, lenders tend to choose deals with the same or fewer risk factors, with only a very slight uptick in higher risk deals.

'Asri agrees, saying that contractors will have to invest in new technology which showcases the continued growth and evolution of the construction space. **FocusM**

Malaysian GDP from construction



Source: Tradingeconomics.com | Department Of Statistics, Malaysia