

Private Sector *Trade Note*

CARICOM's Construction Services Trade

► CONSTRUCTION SERVICES GLOBAL TRADE OVERVIEW

The global construction and related engineering services (hereafter referred to loosely as “construction services”) market is another big global trade opportunity. This sector is defined to include the following components; general construction work for building; general construction work for civil engineering; installation and assembly work; building completion and finishing work; and another category called other construction and related engineering services.

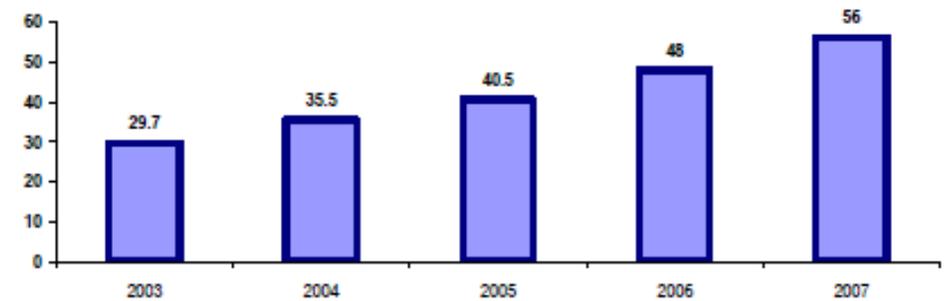
In 2007, global imports of construction services was valued at US\$56 bn. This services opportunity is dynamic growing at over 17% annually between 2003 and 2007, compared to global import expenditure growth of 11% between 2000 and 2007 and general services import growth of 12% between 2000 and 2008. This therefore means that up

to 2007, construction services were being imported globally at a faster rate than total commercial services, which makes this an interesting service trade opportunity for exploration.

The leading import markets for construction services in 2007 were Germany (US\$9.1bn), Japan (US\$7.9bn), the Russian Federation (US\$6.5bn), Kazakhstan (US\$4.3bn), Italy (US\$3.5bn), China (US\$2.9bn), France (US\$2.1bn), Spain (US\$1.9bn), the USA (US\$1.8bn) and Malaysia (US\$1.7bn). The most

dynamic markets for importing construction service between 2003 and 2007 were Tajikistan (155% growth annually), Romania (100%), Anguilla (96%), New Zealand (91%), Lithuania (83%), New Caledonia (76%), Latvia (71%), Antigua/Barbuda (71%), the United Kingdom (68%) and Zambia (63%). Notable dynamic import markets for construction services in the Caribbean include the Bahamas and the Netherland Antilles.

Figure 1: Global Construction services trade (US\$bn)



The top exporters of construction services in 2007 included Germany, Japan, the USA, China, France, Spain, the Russian Federation, Italy, The Netherlands and the United Kingdom who jointly accounted for 82% of global exports of construction services.

► **CARICOM TRADE IN CONSTRUCTION SERVICES**

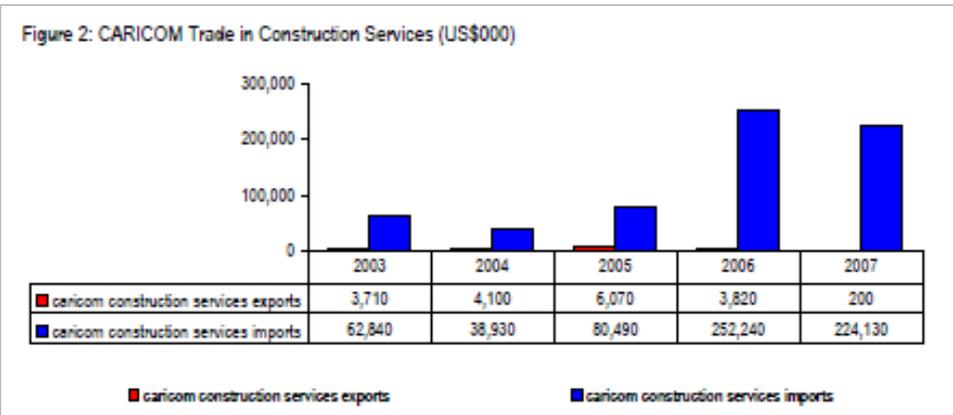
However, Construction services trade in CARICOM is underdeveloped. Out of the total services exports of US\$10.1bn, CARICOM construction services providers generated US\$200,000 in 2007. In stark contrast to the global dynamism observed, the region’s export sales of construction services declined by 52% annually. Simultaneously, imports of services, mainly extra-regional imports, expanded by 37% annually, showing that the healthy demand for construction services, when not met domestically, was met outside CARICOM (see figure 2). Essentially there is more imports of extra-regional construction services than intra-regional trade in services.

Overlooking instances of under-reporting, this shows that there is a large disconnect between the dynamism in global construction trade observed between 2003 and 2007, and the ability of the construction service providers in the region to tap into the global business opportunity, even though some of the most dynamic importers of these construction services (namely Antigua/Barbuda and the Bahamas) are member states of CARICOM.



In 2007, the top importing markets for construction services within CARICOM were the Bahamas (US\$176.2mn) and Antigua/Barbuda (US\$ 29.4mn). Between 2003 and 2007, the only countries reporting any exports in construction services were Barbados, Belize, St. Kitts/Nevis and Trinidad/Tobago, with St. Kitts the only data reporter in 2007.

This essentially means that subject to what are called horizontal requirements (i.e. those requirements that all service providers have to comply with to provide services in Trinidad & Tobago, specifically alien land holding, company registration, foreign share acquisition license) a foreign construction company in any WTO member state can build a hotel or resort in that country as there are no industry specific restrictions on



► **CARICOM MEMBER STATES EXTERNAL COMMITMENTS FOR TRADE IN CONSTRUCTION SERVICES**

WTO Commitments:

Haiti and Trinidad & Tobago are the only CARICOM Member States that have made commitments in the WTO. These commitments relate to General Construction Work for Buildings for Trinidad, and general construction work for building; general construction work for civil engineering; installation and assembly work; building completion and finishing work for Haiti.

Trinidad’s commitment to “lock in” market access to WTO service providers in the area of construction services relate specifically to hotel/resort development.

market access and no distinction in treatment of foreign and local service providers in the construction services industry.

Haiti’s commitments allow a foreign service supplier in the area of construction services to provide services by any means apart from actually temporarily moving workers to Haiti for a service contract (what policymakers call mode 4 or temporary movement of natural persons). So, a construction service supplier from a WTO member state, say France, can provide services through a website (“cross border supply”) or can establish an office in Haiti (“commercial presence”) to provide these services to the Haitian market, but the ability to move workers temporarily into Haiti for

“Notable dynamic import markets for construction services in the Caribbean include the Bahamas and the Netherland Antilles.”

construction contracts is not policed by the WTO but left to the discretion of the Haitian Government (what is called “unbound” market access).

Also, all other CARICOM member states have not granted any market access rights to WTO member states in this sector, and as such, construction service suppliers are only regulated at the national level.

Guyana, St. Kitts/Nevis, Dominica, St. Lucia and Suriname. This implies that the other member states reserve the right to regulate this service at the national level and are not bound by the EPA. However, there were efforts made to protect the local construction services industry even in those countries where commitments were made. For example, these member states all reserved the right to regulate the movement of construction workers in their territories. Additionally, St. Kitts/Nevis and Antigua/Barbuda require



Market Access Provisions in Regional Trade Agreements:

In the EPA, CARICOM has opened up to the EU more than it has done at the WTO and other bilateral trade agreements. However, construction is still treated as a sensitive sector as many commitments were not made, and as such, there are still various elements of red tape that a construction service provider will face when either trying to export or import these services.

In terms of General construction work for buildings commitments to secure some level of market access for European construction services firms were made by the Dominican Republic-DR (not a CARICOM member but a CARIFORUM member), Jamaica, Antigua/Barbuda, Trinidad/Tobago,

joint ventures (in addition to the horizontal requirements) if construction firms from the EU intend on establishing an office in their countries.

In terms of general construction work for civil engineering commitments to secure some level of market access for EU construction services firms were made by the DR, Jamaica, Guyana, Barbados, Grenada, Suriname and Trinidad & Tobago. Interestingly, Suriname will phase out all restrictions to the establishment of a firm in this sector by 2013. In terms of installation and assembly work, commitments to secure some level of market access for EU construction services firms were made by the DR, Jamaica, Guyana and Suriname. In terms of building completion and finishing work commitments to secure some level of market access for EU construction services firms were made by the DR, Jamaica, Guyana and Suriname.

In the European Union, most countries have made commitments which allow CARICOM construction firms to have access to their markets through various ways. CARICOM construction firms can establish an office in the European Union to provide construction services. However, there are numerous horizontal limitations including real estate purchase restrictions, company form restrictions, public utility restrictions amongst others that any CARICOM firm seeking to explore the European Union market would need to thoroughly examine. Industry specific restrictions on commercial presence were only indicated by Bulgaria, who stipulated that any CARICOM firm seeking to establish an office to provide construction services can do so except in cases that projects are of “national or regional significance”. In those cases, a partnership with a local Bulgarian firm is required.

Bulgaria was not a major importer of construction services in 2007 as US\$17mn was spent on foreign construction services in that market, with a decline in import spending in that market between 2003 and 2007. CARICOM construction service providers can sell their services to European Union consumers through the internet (mode 2 cross border consumption) and by inviting those consumers to purchase their services in the Caribbean (mode 1-consumption abroad or where the consumer moves to where the service is provided e.g. tourism and education services).

The EPA also allows for the movement of key personnel related to a construction firm and graduate trainees. The movement of the above categories of persons working in the construction industry is still heavily regulated in some EU member states by economic needs test (i.e. where labour boards assess whether there is a shortage of the skill which warrants importing construction services workers), quotas on the percentage of foreign workers that can be employed, residency requirements for managing directors. Specifically, Bulgaria stipulates that foreign specialists must have two

years experience in construction and Malta. Additionally, there are provisions which allow for CARICOM contractual service suppliers and independent service suppliers to have some level of market access in this sector.

The entire schedule of EPA services commitments is located at http://www.crnmm.org/index.php?option=com_docman&task=cat_view&gid=208&Itemid=60

Other agreements which cover trade in services including some commitments for the construction industry include the CARICOM-Dominican Republic trade Agreement, and the Costa Rica Agreement (even though this agreement does not include a strong market access component. These agreements can be viewed at http://www.crnmm.org/index.php?option=com_content&view=category&id=44&Itemid=79.

Commitments made in the area of construction services by top importing markets such as Germany, Japan, Russia can be found at www.wto.org

Another interesting issue however relates to the fact that the region has little engagement with top importing markets for construction services such as Japan, the Russian federation, Japan and China. This ultimately means that where other countries/regions sign trade agreements which cover trade in construction services, they will have preferential market access which can facilitate them outbidding us on services contracts in these top markets.

Next issue will look at CARICOM Beer Trade.

NOTES

¹ All data provided by the International Trade Centre (ITC) *tradeMAP* database. www.trademapp.org [retrieved July 24, 2009]



Readers are invited to suggest topics of interest for future trade notes.

Produced by the OTN Information Unit, 2009
DIRECT ALL COMMENTS OR QUERIES TO:

Mr. Lincoln Price
Private Sector Liaison
lincoln.price@crnmm.org