CHAPTER I

INTRODUCTION

1.1 Background

The global construction industry has experienced significant shifts from 2020 to the present, driven by factors such as urbanization, sustainability, digital transformation, pandemic,and geopolitical influences.The global construction market is expected to reach US$ 15.46 trillion in 2023 from US$ 14.50 trillion in 2022 at a compound annual growth rate (CAGR) of 6.6 percent. The market is expected to reach US$ 19.52 trillion in 2027 at a compound annual growth rate (CAGR) of 6 percent, according to the business research company in Figure1.1.

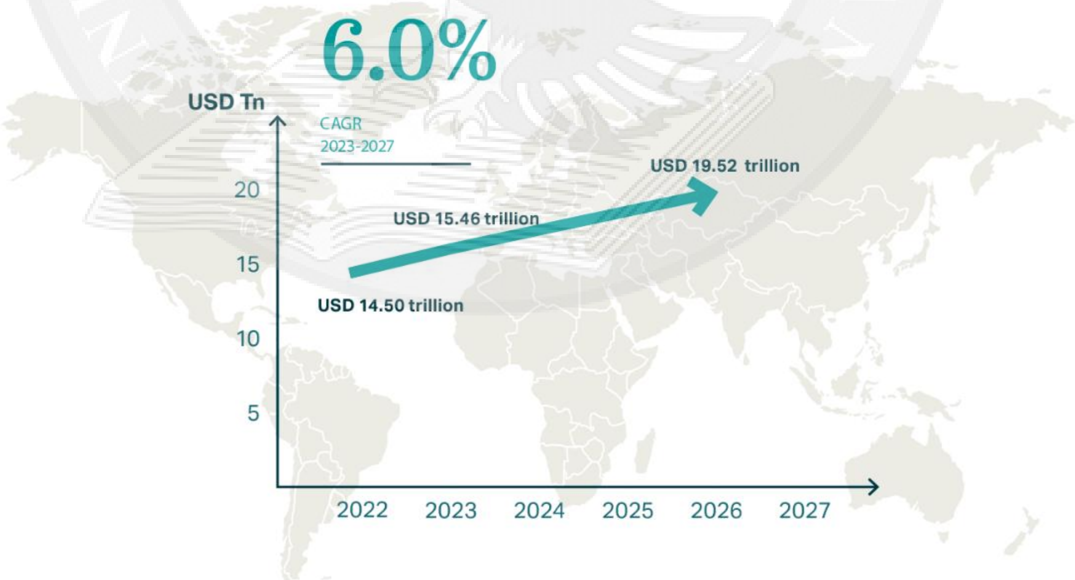

Figure 1.1 World Construction Growth 2022-2027.
Source: Publications.aecom.com

The COVID-19 pandemic had a profound impact on the industry, causing delays in projects, supply chain disruptions, and increased material costs. However, post-pandemic recovery efforts, government infrastructure investments, and technological advancements have fueled growth in key regions, including Asia-Pacific, North America, and Europe. As can be seen in the Figure1.2, construction output growth rates were particularly strong in the Asia-Pacific region.

Construction Output Growth Rates in Major Regions of the World in 2024

Regions	Growth Rates
North America	2.50%
Western Europe	1.80%
Asia Pacific	3.50%
Latin America	2.00%
Middle East and North Africa	2.80%
Sub-Saharan Africa	3.00%

Figure 1.2 Construction Output Growth Rates in Major Regions of the World in 2024, Source: Delotte United States

GDP from construction across the main economies is expected to reach US$ 1.477 trillion across Asia, with China accounting for US$ 1.201 trillion. This equates to circa 6.68 percent of all GDP generated from within the Chinese economy. Following China, Japan accounts for US$ 192 billion of the overall construction market (4.54 percent of GDP) and India accounts for a further US$ 39 billion (1.15 percent of GDP). Indonesia accounts for US$ 20 billion (1.50 percent of GDP), with South Korea contributing US$ 17 billion (1.02 percent of GDP). The construction markets of Kazakhstan, Malaysia and Cambodia make up the remaining output of the region's main economies.

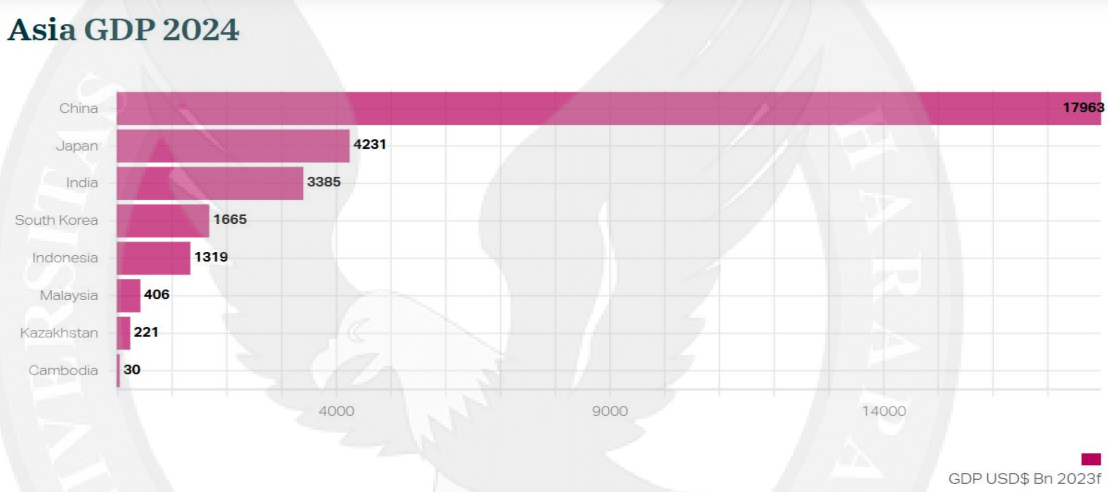

Figure 1.3 Asia GDP 2024.
Source: IMF/ Trading Economics / World Bank

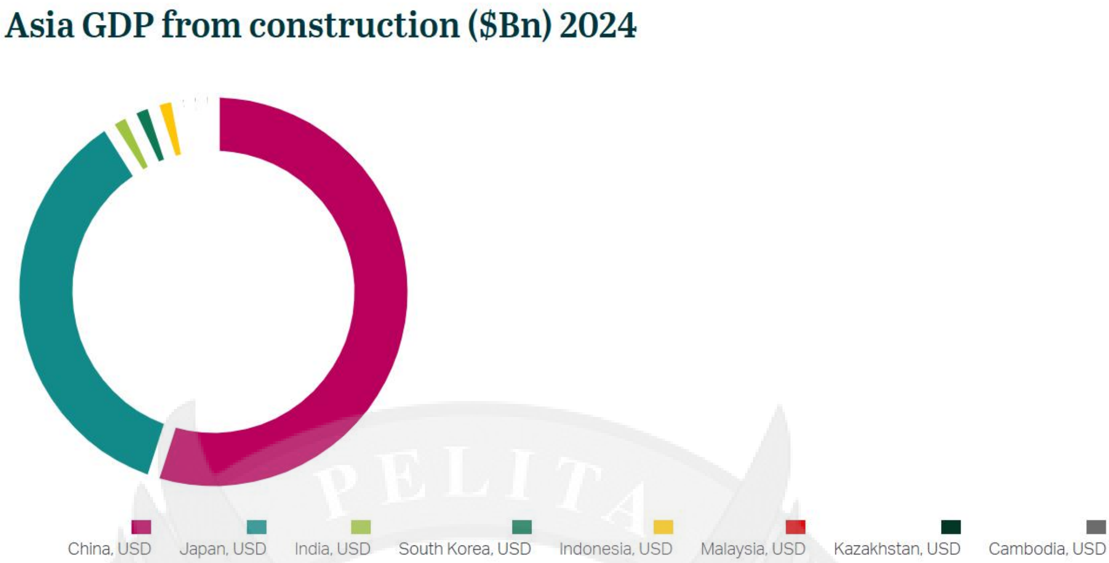

Figure 1.4 Asia GDP from Construction 2024.
Source: IMF/ Trading Economics / World Bank

1.2 Phenomenon gap

Indonesia, as one of the largest economies in Southeast Asia, has shown unique resilience and potential in its construction market. Indonesia has a large population and a low urbanization rate. The government has proposed strategies such as "New Capital Construction" (IKN) and "Maritime Pivot", and there is huge demand in transportation, energy, housing and other fields. After the pandemic, Indonesia's economy is gradually recovering, and the government will increase infrastructure investment to boost employment and GDP, and there will be more opportunities for international contractors.

Among the fastest-growing construction markets, Indonesia stands out due to its ambitious infrastructure development plans under the National Medium-Term Development Plan (RPJMN 2020-2024). Indonesia's construction industry is forecasted to reach US$ 429 billion by 2026, fueled by major projects such as the new capital city (Nusantara), toll roads, seaports, and railways. With strong support from the government's finances, the output value of Indonesia's construction industry has maintained growth for three consecutive years. According to data from market research firm Market Line Research in Figure 1.5, Indonesia's construction industry will grow by 5.4% year-on-year in 2023, and the year-on-year growth rate is expected to further increase to 7.2% in 2024. In addition, thanks to the country's rich new energy mineral resources and the implementation of the "Indonesia Manufacturing 4.0" strategy, Indonesia's industrial and manufacturing construction demand continues to increase. Companies such as BYD, CATL and Hyundai of South Korea have invested in Indonesia to build factories, which has effectively promoted business development in areas such as industrial construction. Fitch Solutions predicts that under the general trend of global manufacturing supply chain reconstruction, Indonesia is expected to undertake more manufacturing capacity, thereby further driving the demand for related housing construction.

Figure 1.5 Changes in Indonesia's construction industry output value from 2019 to 2028.
Source: MarketLine Research

In recent years, China-Indonesia bilateral economic and trade cooperation has developed comprehensively, especially in the fields of trade, investment and engineering contracting. As far as the construction industry is concerned, Indonesia has long been one of the top ten overseas markets for Chinese companies to carry out engineering contracting. Chinese companies have actively participated in the construction of power stations, highways, bridges, dams and other projects in Indonesia, making important contributions to promoting Indonesia's infrastructure construction (Figure1.6). As the Chinese enterprise with the best overseas market business, CCC has established a strong presence in the Indonesian market, undertaking key projects such as the Sura-Madu Bridge and various port developments.

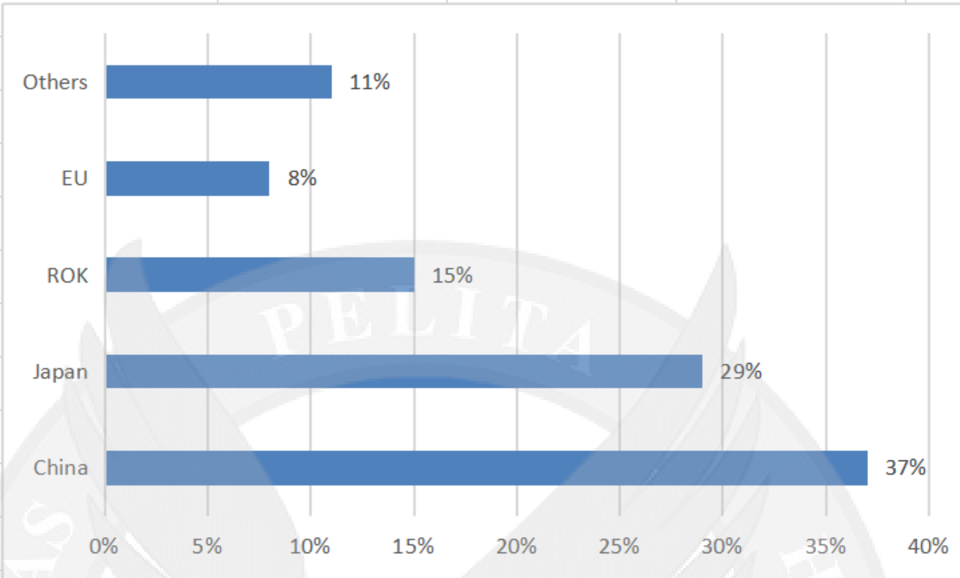

Figure 1.6 Distribution of foreign enterprises in major infrastructure projects in Indonesia in 2022.
Source:Indonesia Investment Coordinating Board(BKPM)

The phenomenon gap in this research emerges from the need to understand how CCC gains and sustains its competitive advantage in Indonesia's construction industry amid increasing competition from local firms and other international players.

1.3 Research Gap

While significant research has been conducted on competitive advantage in the construction industry, existing literature has primarily focused on Western firms and large multinational construction companies from the US and Europe (Martek, 2022; Lee, 2019). Studies analyzing Chinese state-owned enterprises (SOEs), particularly in Southeast Asian markets, remain relatively limited.

Additionally, prior research has largely examined traditional construction services (Siman and Nugraha, 2023; Sami et al., 2023), but has not adequately addressed the growing trend of integrated construction services, which encompass design, engineering, financing, construction, and operation (such as EPC+F model and PPP model). However, this research on CCC, leverages its vertical integration capabilities and strong financial backing to gain a competitive edge that the researcher is investigating.

1.4 Research Problem

CCC is a leading global comprehensive service provider of ultra-large infrastructure, mainly engaged in the investment, construction and operation of transportation infrastructure, equipment manufacturing, real estate and urban comprehensive development. It aims to provide customers with investment financing, consulting planning, design and construction, management and operation package solutions and integrated services. CCC is listed in Hong Kong and Shanghai, and the company's profitability and value-creation capability are in a leading position in the world. In 2024, CCC ranked 63rd in Fortune global 500.

CCC has been operating in Indonesia for nearly 30 years. Many of its subsidiaries have set up branches in Indonesia, with business covering port dredging, roads and bridges, housing construction, rail transit, clean energy and other fields. Over the years, CCC has undertaken a number of landmark infrastructure projects in Indonesia, playing a positive role in local connectivity, improving people's livelihood and economic development.(Source: CCC official website)

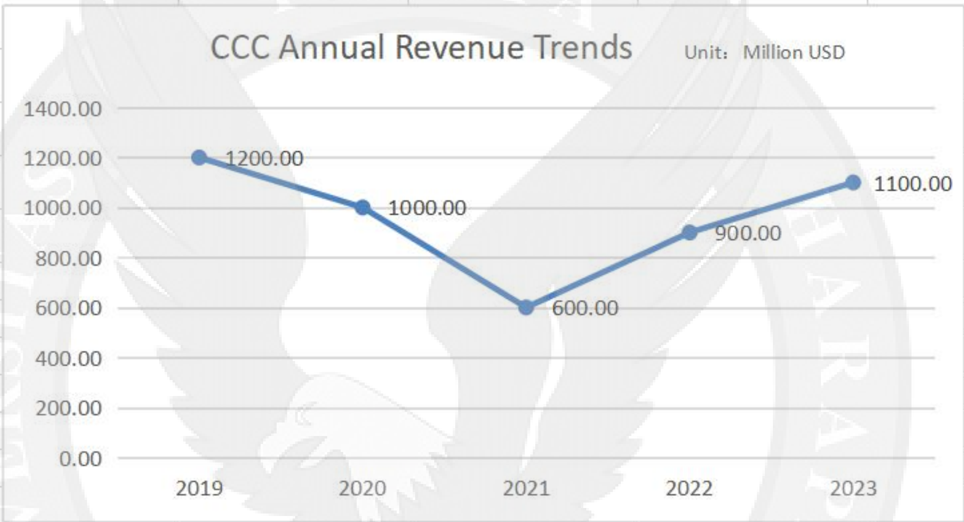

Figure 1.7 CCC Indonesia revenue trends 2019-2023.
Source: CCC financial statements

As can be seen from the Figure 1.7, affected by the pandemic, CCC's annual revenue in Indonesia showed a significant downward trend from 2019 to 2021. After reaching a low point in 2021, it began to steadily recover from 2022. The annual revenue in 2019 was US$1.2 billion, the highest point in the past five years; while the annual revenue in 2020 fell to US$1 billion, a decrease of about 16.7% from 2019, the revenue in 2021 further fell to US$600 million, a sharp drop of 50% from 2019. As the global economy gradually recovered, the revenue in 2022 rebounded to US$900 million and continued to grow to US$1.1 billion in 2023, close to the 2019 level. Figure 1.7 shows CCC's rapid recovery after the impact of the epidemic, reflecting its resilience and competitive advantages as a leading global infrastructure company.

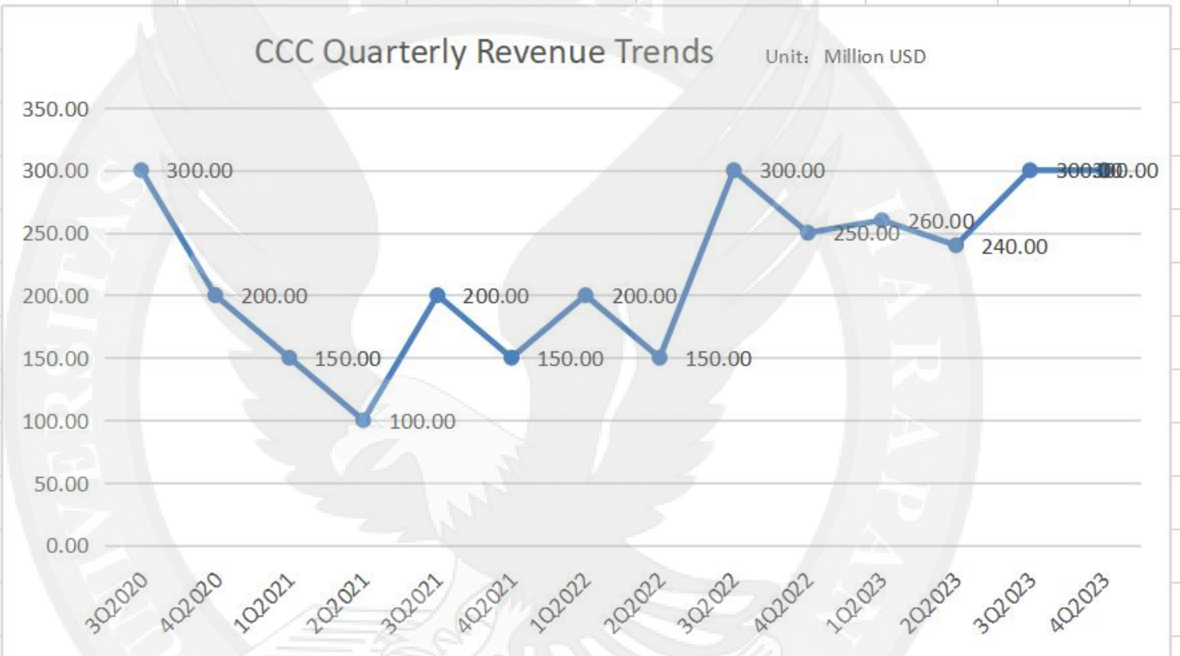

Figure 1.8 CCC Indonesia quarterly revenue trends 3Q2020-4Q2023.
Source: CCC financial statements

The researcher also conducted a more detailed analysis of CCC's quarterly revenue from the third quarter of 2020 to the fourth quarter of 2022 as shown in Figure 1.8. Figure 1.8 shows the changes in CCC's quarterly revenue from Q3 2020 to Q4 2023. The data shows that after experiencing the initial impact of the epidemic, the company's revenue experienced significant fluctuations and gradually recovered. Year-on-year analysis shows that Q3 2021 decreased by 33.33% year-on-year compared with Q3 2020, while single-quarter revenue reached its lowest point in the Q2 2021. From Q3 2021 to the Q2 2022, CCC's quarterly revenue fluctuated between US$200 million and US$150 million, indicating that the company's business is still in the recovery period from the impact of the epidemic. From the quarter-on-quarter analysis, revenue achieved strong growth from Q2 2022 to Q3 2022, with a quarter-on-quarter increase of 100%, indicating that the company quickly resumed the project rhythm and seize policy opportunities in Indonesia to stimulate economic recovery. From Q3 2022 to Q4 2022, it decreased by 16.67% quarter-on-quarter, a slight decline, but still remained at a high level, compared with Q4 2021, it increased by 66.7% year-on-year.The gradual rebound from the lowest point (US$100 million) in Q2 2021 to the peak (US$300 million) in Q3 2022 shows that CCC is effectively overcoming the uncertainties of the external environment.

Thanks to CCC's comprehensive service capabilities in the entire construction industry chain, CCC has achieved rapid growth in infrastructure construction, foundation design, dredging business, and other businesses including emerging businesses (Figure 1.9).

As shown in Figure 1.9, benefiting from Indonesia's strategic projects such as the official launch of the construction of Indonesia's new capital, and a series of stimulus policies and measures to restore the economy after the epidemic, the infrastructure construction business and foundation design business, as the core business of CCC, have achieved significant growth. The infrastructure business has increased its revenue from US$400 million in 2021 to US$600 million in 2022, an increase of 50%, while the foundation design business has achieved a greater growth, from US$80 million in 2021 to US$150 million in 2022, an increase of 87.5%, thereby driving CCC's overall business revenue in Indonesia to achieve a significant increase in 2022.

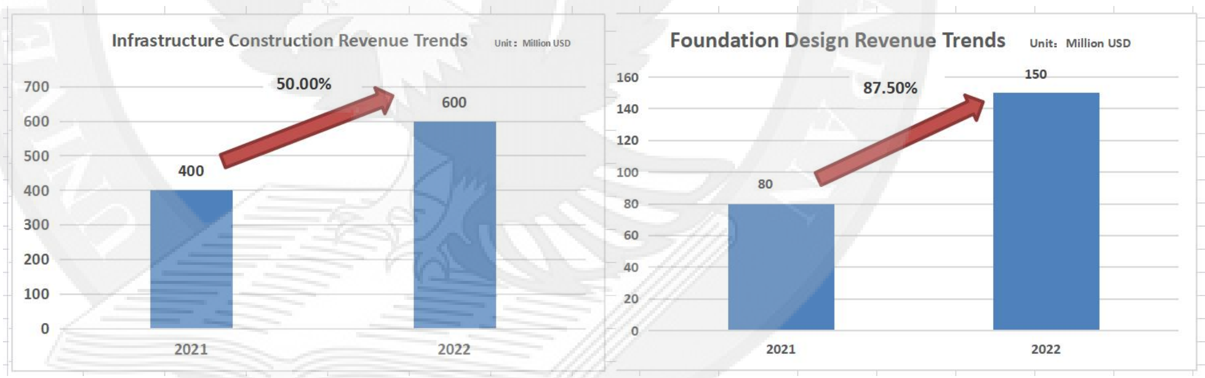

Figure 1.9 CCC Indonesia infrastructure construction & foundation design revenue trends 2021-2022.
Source: CCC financial statements

From Figure 1.8 and Figure 1.9, it can be seen that CCC's business in Indonesia has almost recovered to its pre-pandemic revenue level at a relatively fast pace, reflecting the sustainability and resilience of CCC's business in Indonesia. However, it should be noted that the Indonesian business revenue of Chinese state-owned enterprises, such as CSCEC and Sinochem, has recovered relatively quickly after the pandemic. While CCC has achieved gratifying results in Indonesian revenue, it still needs to remain cautious. In particular, in the Indonesian market, CCC is increasingly challenged by strong local players, including state-owned enterprises (SOEs) such as PT Wijaya Karya and PT Waskita Karya, which benefit from domestic policy support and local market familiarity (Zhao et al.,2016). The competition CCC faces from competitors in the same industry is still fierce, and it still needs to continue to improve and maintain its own competitive advantages (Zou et al.,2007).

Through the above analysis, this article aims to comprehensively explore the core competitive advantages of CCC in the Indonesian integrated construction services market in the post-epidemic era. The study seeks to reveal how CCC maintains its leading position amid intensifying international competition and shifting market demands. This analysis not only provides theoretical support for understanding the strategic layout of Chinese state-owned enterprises overseas but also offers practical insights and reference value for international contractors in formulating adaptive and forward-looking strategies when entering and operating in emerging markets like Indonesia .

1.5 Research Questions

Based on the research problems above, below are the research questions:

1) What are the strategic factors that contribute to the competitive advantage of CCC?

2) How are the strategic factors applied/implemented to contribute to the competitive advantage of CCC?