

# The case for the local construction industry being more involved in major infrastructure projects

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Much of the energy and vitality in the local economy, for the last 5 years, have been injected from the construction industry. However, this energy was mostly derived from large-scale infrastructural projects undertaken by foreign companies using foreign labour, imported material and funded by foreign banks. Not surprisingly, the completion of much these projects, is now being felt as a slow-down of the local economy.

## Growth of the Economy in the last 5 years

During the past 5 years (2014-2018), the National Economy has, grown by an average of 6.1%. While the national economy grew at an average rate of 6.1%, the Primary Sector grew only by an average of 3% and the Tertiary Sector (which include the Tourism industry) grew by 5.2%. It is the Secondary Sector, which grew by a whopping 13.5% which, therefore, afforded a large part of the fuel that drove the engine of the national economy during the period.

	2014	2015	2016	2017	2018	Average
<b>GDP at Market price</b>	<b>7.3</b>	<b>2.9</b>	<b>7.3</b>	<b>6.9</b>	<b>6.1</b>	<b>6.1</b>
<b>Primary</b>	<b>-0.3</b>	<b>-0.4</b>	<b>1.5</b>	<b>8.2</b>	<b>5.8</b>	<b>3.0</b>
Fisheries	-0.6	-1.1	1.3	11.0	6.6	3.4
<b>Secondary</b>	<b>16.2</b>	<b>18.1</b>	<b>12.3</b>	<b>10.9</b>	<b>9.8</b>	<b>13.5</b>
Construction	28.5	27.2	10.1	10.2	12.8	17.8
<b>Tertiary</b>	<b>7.0</b>	<b>2.4</b>	<b>6.7</b>	<b>5.2</b>	<b>4.7</b>	<b>5.2</b>
Tourism	2.6	-1.3	4.5	10.3	7.0	4.6

**Growth of the National Economy (2014-2018). Source: Statistical Yearbook 2019, Bureau of National Statistics**

While it's evident that much of the growth was derived from the Secondary Sector, a deeper drill into the Secondary Sector reveals that while the total sector grew by an

average of 13.5%, it's the construction industry which grew at an average of 17.8 % that energized the sector. In fact, as can be seen in Table 1, the Construction Industry grew upwards of 20% in the first two years (28.54% in 2014 and 26.81% in 2015) and had continued to maintain double figure growth for the last 3 years. Therefore, it is the construction industry that largely accounted for growth in the Secondary Sector, which then contributed much of the growth to the overall economy.

The energy of the construction industry during the study period is perhaps best illustrated in comparison with other essential industries of the local economy.



Data: Bureau of National Statistics, Chart: mer.mv

The Construction Industry of yore

The local construction industry, that had, pre-2000, maintained an average share of the National Economy of around 2.5%, made its presence felt with a 4% contribution to national accounts in the early years of the new millennium contributing heavily to the building of new resorts. The industry was additionally spurred on by the post Tsunami reconstruction projects, reaching close to 6% share in the Economy during the period.



Data: Bureau of National Statistics, Chart: mer.mv

The consolidation of the growing industry

The formidable construction industry that grew and matured during the late 1990's was nurtured and energized by local entrepreneurs who invested into human and infrastructural resources to growing the industry. Local entrepreneurs entered the industry with whim and energy and invested in equipment, and human resources to grow an expanding industry.

Even while the main material for the industry was, and continue to be imported, and the vast majority of the labour continue to be foreign, the construction industry was driven by local entrepreneurs and their local companies. Small local construction companies grew by investing in knowledge and resources. In short order they had accumulated necessary experience and confidence to undertake sophisticated projects including under-water restaurants, premium real estate housing projects, large scale land reclamation and revetment projects, to name a few.

The Construction Industry of the Past 5 years

However, the construction industry that had grown by an average of 17% in the last 5 years, had been spurred on by projects of a very different nature. It's no coincidence that we saw large scale infrastructural projects like the China-Maldives Friendship bridge, the airport expansion, the Dharumavantha Hospital, land reclamation of Hulhumale phase II, the Nasandhura and numerous housing projects during this period. While of very different nature, they all had one thing in common. They were all 'foreign projects' which happened to be implemented in the Maldives.

Instead of being financed by local financing institutions, the finance for these projects were sought and confirmed from foreign banks and the earnings from financing these larger projects were also kept outside the ambit of the banks in the local economy. Cement, river sand, construction steel and other components, are normally imported by local companies, who then earn an income from the import and trade of these materials. However, the total “Bill of Quantities” for these larger projects arrived into the country fully procured, and duty free in most cases, by the foreign contracting company who secured the project.

While the local construction industry, too, relied mainly on imported labor, there were local supervisors and entrepreneurs who procured, managed and implemented the projects.

Yet, these mega projects that drove the construction industry of the last 5 years arrived in the country en masse, as it were, with a full complement of equipment, material, labor, housing and even on occasion, the majority of the food requirements for the workforce already having been already procured.

Therefore, while the construction industry grew by a remarkable 17% in the past 5 years, the feed-back loop into the economy has been throttled. The mature ‘old-fashioned’ local construction industry was by passed and therefore, the local economy had not received the full benefit of the considerable economic activity that was generated in the economy.

The government has, of late, announced projects worth 1.6 billion US \$ for the near future. As these projects are awarded and work starts, let us hope that the local construction industry, this time around, gets to play a larger part in the activities that follow. That even if the projects are awarded to foreign companies, that they are ‘respectfully requested’ to create viable partnerships with local companies to implement the projects. That the considerable skill and expertise of the local professionals will grow and mature further. That the local traders will get to benefit from the import and trade from the construction material and that the local entrepreneurship, too, be allowed to contribute from their experience.

The economy too, will benefit from such partnerships as the feed-back loop into the larger economy will be made deeper and therefore more beneficial for the local economy. That the impressive growth numbers which the industry is able to achieve, meaningfully contribute and enrich the local economy instead of just being numbers in the National Accounts.