EXECUTIVE SUMMARY

Introduction

The American construction market is the largest in the world and offers a wide range of exciting opportunities to Canadian companies. Regionally, the American economy represents nine "Canada's"; five of the nine geographic divisions described in the text have populations greater than Canada's, while the other four each exceed one-half of Canada's population. There are 41 American metropolitan areas with population exceeding one million, compared to three in Canada. Construction expenditures in California alone are approximately equal to those in Canada.

Some of the world's largest construction firms have entered the American market during the past decade, as activity in developing nations and the Middle East nations slowed. Our information suggests that the American market allows for a higher profitability than the Canadian market, particularly when compared with the tight Toronto and Montreal markets. More promising still is the fact that the American market is relatively open to foreign competition and the trend is toward increased foreign penetration of the market. However, Canadian firms should be aware that, while individual projects and the market in general may allow higher profitability, information obtained from the U.S. Department of Commerce suggests that foreign construction companies to date are suffering losses on their U.S. activities[1] and that it may take a few more years for the investments of these firms to start paying off.

The recently-enacted Canada-U.S. Trade Agreement is expected to enhance Canadian exports of construction services and materials by reducing border-crossing delays through eased access to temporary work permits, by focusing future government negotiating efforts on procurement matters, and by securing capital investments against adhoc protectionism. However, the impact upon construction exports into the United States, while positive, is not expected to be dramatic, and it will be less than the impact upon domestic construction activity. As expressed in a U.S. analysis of the pact, "the impact on the U.S. construction industry will be minimal because there are very few existing barriers and the Canadian contractors able to compete in the U.S. are probably already doing business here". This view, however, does not encompass the fact that relatively few Canadian contractors seriously attempted to enter the American market prior to the trade agreement.

---

[1]The Department of Commerce's *1987 Survey of Current Business* shows the Net Income position of Foreign Direct Investment Construction Firms as being a loss of $US 27 million in 1981, a loss of $US 44 million in 1982, a profit of $US 13 million in 1983, a loss of $US 65 million in 1984, and a loss of $US 133 million in 1985. This may be influenced by what a Commerce Department Officer described as "a Japanese philosophy that the cost of entering a market is to lose money for ten years".