What is the relationship between construction activity and economic development? Are they positively or negatively related, or is the relationship more complex? Does the rôle of construction change significantly as economic development proceeds from the less developed country (LDC) status via the newly industrialized country (NIC) status to the advanced industrial country (AIC) status? Europe and North America can be thought of as continents dominated by AICs; Asia can be thought of as dominated by NICs; Africa can be thought of as dominated by LDCs; and South America and Oceania can be divided into a few AICs or NICs and a multitude of LDCs. The argument pertaining to countries at different stages of economic development can thus be applied to their continental groupings. This overview of development patterns concerns the next 25 years; it is based on data spanning 50 to 100 years.

Construction is intimately related to industrialization and urbanization. The share of urban population in total population first grows at an increasing rate and then at a decreasing rate as GNP per capita increases. Put differently, this relationship is S-shaped. An S-shaped process of urbanization is consistent with an inverted U-shaped profile of construction activity: the share of construction in GNP first grows and then declines as GNP per capita increases. The reasons for the inverted U-shaped relationship include less population growth, less migration, and more physical capital already in place in later stages of economic development. The same relationship holds for any one country over time.

Concerning the technological change in construction, several studies indicate relatively minor changes in construction technology since World War II even in most advanced industrial countries such as the US and Japan. However, there is some evidence of a broad shift of construction inputs from manufacturing to services, that is, from the old to the new engine of economic growth and development. This reflects the long-term tendency of construction firms in AICs to shed direct labor and concentrate on construction management and related services. Although the construction sector is not technologically stagnant, its technological development tends to be less impressive than that of other major economic sectors.

As construction goods such as buildings, railroads, and bridges are non-tradeable, what are the implications of the above analysis for international trade in construction services? How are trade patterns likely to be influenced by economic
development? A large proportion of construction activity remains local, regional, or national at all stages of development. The segment of the construction sector that engages in multinational, continental, or global construction activity may be growing, but it is still relatively small. Only with respect to this segment it is meaningful to speak about the global market in construction services.

The global market in construction services is far from restricted to AICs. Both LDCs and NICs already play important parts in the global market. The weak flows emanating from today's LDCs are likely to become ever stronger, while those emanating from NICs are likely to follow the fate of AICs. Of course, today's AICs may continue providing highly specialized construction services to NICs and LDCs. These services may focus on high-technology or capital-intensive projects, as well as on highly specialized maintenance and repair construction, which is growing in AICs. Nevertheless, it is reasonable to expect that today's AICs will in time become substantial importers of construction services.

The argument concerning the shifting patterns of international trade in construction materials and components is similar to that pertaining to the construction services, but the former market is considerably larger and more dynamic than the latter. The higher the capital intensity of production and distribution of a particular construction material or component, the greater the likelihood that AICs will maintain their dominance in that market, and vice versa. However, NICs and LDCs are likely to play increasingly important rôles in international trade of material-intensive and labor-intensive construction materials and components. This is true of product life cycles and international trade in other sectors. Namely, new products are initially exported from AICs and imported by all other countries; as they reach maturity, these products are exported by NICs and ultimately by LDCs; at the end of their product life cycles, AICs import the mature products first from NICs and ultimately from LDCs. Textile and car industries are examples of this process.

In early stages of economic development the construction sector grows faster than other sectors. As industrialization and urbanization slow down in NICs, so does the construction sector. In AICs the construction sector ultimately declines absolutely, not only relatively. What does this mean for the construction market on a continental scale? It goes without saying that there will always be significant projects to build on every continent, but we are concerned with broad trends and dominant patterns of change.

The West European construction market will remain large, but it will continue declining, too. East and Central European construction markets will ultimately grow, but they will remain rather small in global terms. Most of these countries can be classified as AICs or NICs. Although they will need to restructure their physical capital, and especially their infrastructure, a large proportion of the capital required is already in place. Thus, the European market will lead to growing competition over a shrinking construction pie. The North American market is likely to suffer in the 1990s because of the massive distortions in construction demand stemming from overstimulation of investment in the 1980s. In the long run, North America will follow Europe. The South American construction market is likely to remain stagnant for a while, but it may start growing if North American funds are channeled there. The African construction market will remain stagnant for a considerable period, but it may benefit from European funds that may be diverted there in years to come. The Asian construction market will remain large and it will continue growing at a healthy rate. The so-called currency crisis in Southeast Asia will dampen this growth for several years only. Here, there will be an increasing ability and willingness to invest into a wide range of constructed facilities, and especially infrastructure. The country to watch is China, the future flagship of the Asian economy. Oceania may benefit from rapid development in Southeast Asia.
