

Construction and Projects: Overview (South Korea)

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This Practice Note gives an overview of construction and projects law and practice in South Korea.

In an evolving construction and projects sector, practitioners must frequently navigate a complex list of regulations and negotiate contractual arrangements. To do this, they must stay up-to-date with the latest developments and be aware of the various procurement arrangements, transaction structures, and financing options.

This note is intended to provide a guide to these issues in South Korea, considering the main trends, major projects, and common practices within the local and international construction markets. It discusses the usage of standard forms of contracts, the allocation of risks, and summarizes the legal framework governing employment, health and safety, and environmental issues.

Each project is individual and will require consideration of its own specific issues. This note is therefore intended to be a starting point for a practitioner in this area and does not replace the need for consultation with local legal advisers.

Construction and Projects Sector Overview

Main Trends

The construction industry is still one of South Korea's most significant economic drivers, with total construction investment in 2024 forecast to be 12% of GDP.

Construction investment and orders slowed down in 2020, as the COVID-19 pandemic took hold. However, there has been a rebound since early 2021, largely driven by government initiatives, including:

- Active early execution of budgets for social overhead capital (SOC) projects, focusing on infrastructure improvements across the country.
- Increased private sector involvement through policy reforms promoting public-private partnerships (PPPs) in major infrastructure projects.

However, in 2024, rising loan costs and construction material prices began to temper growth, with an expected 2.4% decrease in total construction investment compared to 2023. Financial institutions, which had been active in the market during the period of low interest rates, continue to compete directly with traditional construction investors, particularly in infrastructure projects such as trains and railways.

The South Korean government continues to play a pivotal role in this expansion through policies aimed at:

- **Accelerating infrastructure development.** Early execution of SOC budgets continues, with a strong focus on "smart cities," green infrastructure, and digital transformation. Smart cities integrate cutting-edge technologies like AI, [Internet of Things \(IoT\)](#), and big data to create highly efficient, sustainable urban environments.
- **Encouraging private investment.** There is an increasing role for private investors, particularly in PPPs in key infrastructure projects. The government has been actively promoting these collaborations to spread financial risk and enhance efficiency.

A key challenge facing the industry in 2024 is the rising cost of raw materials and labor, which continues to drive up construction costs. Global supply chain disruptions and inflation have exacerbated these issues, making cost management a central concern for all stakeholders in the industry.

Major Projects

South Korea is currently undertaking several large-scale construction and infrastructure projects aimed at boosting economic growth, enhancing transportation networks, and expanding renewable energy capacities. Key projects include:

- **GTX-A, B, and C lines (USD10.94 billion).** These high-speed rail lines are designed to improve connectivity between cities in Gyeonggi-do and Seoul, reducing travel times significantly. The projects are expected to attract an additional USD13.47 billion in investment by 2026, particularly in the rail transport and infrastructure sectors.
- **Incheon Free Economic Zone (IFEZ).** A massive long-term development project spanning from 2003 to 2030, with an estimated total investment of USD40 billion. This project involves land development, residential and commercial housing, logistics complexes, biopharmaceutical plants, and entertainment facilities such as casinos. It is pivotal in positioning South Korea as a key hub for international business and innovation.
- **Offshore wind farm complexes near Ulsan City and Sinan County.** These renewable energy projects represent South Korea's commitment to reducing carbon emissions and increasing the share of renewables in its energy mix. The wind farms will have capacities of 9 GW and 8.2 GW, requiring investments of approximately USD32 billion and USD41 billion, respectively. These projects are critical for the country's green energy transformation and aim to become some of the largest offshore wind farms globally.
- **Jamsil Meetings, Incentives, Conferences, and Exhibitions (MICE) Complex (USD1.82 billion).** Located in Seoul, this project focuses on the development of large-scale convention centers and exhibition facilities to attract international business events and further establish South Korea as a key destination for global MICE activities. It plays an essential role in boosting tourism and the hospitality industry in the country.
- **Smart city projects in Busan and Sejong.** South Korea is actively developing smart cities. The Busan Eco Delta City and Sejong Smart City are flagship examples, with investments estimated to reach USD5 billion. These projects focus on enhancing energy efficiency, urban mobility, and overall quality of life for residents.
- **Hydrogen economy initiatives.** South Korea has ambitious plans to transition into a hydrogen-powered economy. Projects include the construction of hydrogen-powered infrastructure, such as hydrogen fuel cell power plants and hydrogen refueling stations. The Ulsan Hydrogen Complex is one of the key initiatives, projected to cost approximately USD8 billion over the next decade. This project aims to solidify South Korea's position as a global leader in hydrogen technology.
- **Saemangeum Renewable Energy Project.** This mega-project in the Saemangeum region is part of South Korea's drive toward renewable energy. It includes plans to build 3 GW of solar and wind power generation capacity, making it one of the largest renewable energy clusters in Asia. The total investment in this project is estimated at USD10.6

billion. The project also includes land reclamation and the development of an industrial complex for new energy businesses.

- **Expansion of Gimpo International Airport and Incheon International Airport.** To meet increasing demand for international travel, both Gimpo and Incheon airports are undergoing significant expansions. Incheon's Terminal 2 Phase 2 is expected to increase capacity by 100 million passengers annually, with an investment of approximately USD4.2 billion. These projects aim to bolster South Korea's standing as a regional aviation hub.
- **Cheongna International City 2.0.** This new phase of development in the IFEZ focuses on creating a cutting-edge financial hub, with planned investments in residential, commercial, and cultural facilities. Total investment in this project is expected to surpass USD7 billion by its completion in the late 2020s.

Common Procurement Arrangements

Local Projects

To maintain quality standards, procurement arrangements in South Korea typically follow the limited open bid method, where only pre-qualified bidders can participate. In certain cases, limited bidding or individual negotiation methods are used, particularly for specialized or urgent projects.

For smaller and medium-sized contracts, build-only projects remain common in both the public and private sectors. However, in large-scale public construction projects, the use of design-build contracts has become more prevalent, with contractors often responsible for the entire project design or significant parts of it. This trend reflects the increasing complexity of projects and the need for streamlined project delivery, especially in the infrastructure sector.

The most commonly used contract type is the fixed-fee contract, where the agreed-upon amount for the project is fixed but typically subject to adjustments for factors such as Consumer Price Index (CPI) fluctuations and variation orders. This model helps manage financial risks and reflects the need for flexibility in the face of rising material and labor costs, which have been a concern in the industry as of 2024.

PPPs continue to play a significant role, particularly in the transportation sector, covering projects such as roads, tunnels, ports, and railways. In 2024, the total investment in PPP projects is estimated at USD45 billion across various sectors, a rise from USD38.5 billion in 2021. The most common types of PPP contracts include Build-Transfer-Operate (BTO) and Build-Transfer-Lease (BTL) models, with BTO being more common for transport-related projects.

In addition, PPP projects have seen strong growth in the environment sector, driven by the aging infrastructure of sewage treatment facilities and waste incinerators. The government's commitment to expanding renewable energy infrastructure, such as solar panels and wind turbines, has also spurred investment in environment-related construction. By the end of 2024, PPP investment in environmental projects is projected to reach USD4 billion, continuing the upward trend from USD3 billion in 2021, reflecting South Korea's push toward sustainability and green energy solutions.

The [Act on Public-Private Partnerships in Infrastructure](#) (APPP) applies to PPPs. If a project involves a facility that falls under any of the 17 fundamental facilities defined as infrastructure under the Act, it can be conducted as a PPP. Currently, in large scale PPPs that include a contractor from the UK, EU, US, Canada, Australia, China, Vietnam, Singapore, India, Chile, Peru, Columbia, and other countries which are parties to free trade agreements with South Korea, the contractor will receive the same treatment as a local contractor.

In addition to the BTO, BTL, build-operate-transfer (BOT), and build-own-operate (BOO) procurement schemes, the APPP allows for other PPP schemes proposed by private parties and approved by public authorities.

Common Transaction Structures

Local Projects

For development projects, special purpose vehicles (SPVs) are often used to limit the liability of contracting parties and avoid additional tax burdens.

It is common in private construction projects for one construction company to be the contractor while in public construction projects, a consortium made up of multiple construction companies is commonly the contractor.

International Projects

SPVs are generally used for international projects. However, in most cases, international parties participate as one of the shareholders, not the sole shareholder, of the SPV.

Although the public procurement sector is open to foreign parties, they are usually only involved when special technologies are required.

Financing of Projects and Security

Local Projects

Private projects are financed based on capital flow and supplemented by SPV project loans or mortgages to control risks and reduce interest costs. When SPVs are used, projects can also be financed through stock capitalization or bonds. Other methods of financing include asset-backed financing techniques such as the issue of asset-backed securities (ABS) and asset-backed commercial paper (ABCP). For example:

- An investment bank and a construction contractor collaborate on a development project and establish an SPV specifically for the project to manage financing.
- The SPV has the right to secure a loan from the investment bank. Instead of taking out the loan immediately, the SPV leverages this right to future financing.
- This right to borrow money is turned into a financial instrument called an ABS. These securities are sold to investors, giving them a stake in the SPV's right to future project revenues or financing.

By issuing ABS, the SPV raises funds from investors without having to draw down the full loan amount immediately. This provides more flexibility and lowers the immediate debt burden, while also diversifying funding sources and distributing risk across a range of investors. Essentially, the SPV uses its potential future loan as collateral to raise immediate capital from the market, instead of relying solely on direct borrowing from the bank. This method allows the SPV to reduce upfront financial risks while securing the necessary capital for the project.

The employer's budget determines the method of financing for public projects. These projects are typically executed through long-term, phased contracts, where the employer signs separate contracts each year. The scope of each contract depends on the

budget allocated for that year and the progress of construction work over multiple years. This ensures that the project advances according to the available funding and the construction progress achieved in previous phase.

Security and Contractual Protection

In development projects, it is common to put the land planned for development in a trust and require the trustee to obtain title to the land and to manage gains from the development. An investor can reclaim its investment from the trust. It is also common to provide separate collateral. Investors and creditors usually enter into an agreement with the project parties, under which they can, if certain conditions in the project agreement are met, complete the project by either:

- Acquiring the land planned for development themselves.
- Selling the land to a third party and allowing the third party to assume responsibility for the relevant permits and authorizations.

These are also reasons investors or creditors generally require the land used for development to be put in a trust.

In construction projects, it is common to use a performance guarantee to protect funders' investments. The employer can request the guarantor to compensate for damages resulting from the contractor's breaches. Performance guarantees provided in local projects are usually not independent bank guarantees, so the guarantor can raise a defense based on the issues arising from the underlying construction contract.

International Projects

The same financing methods and security protections are used for international projects. However, in practice international parties can face difficulties obtaining a performance guarantee from a South Korean guarantor company and may be asked to provide collateral in South Korea.

Standard Forms of Construction Contract

Local Projects

Standard contracts are published by:

- The [Ministry of Land, Infrastructure and Transport](#) (MOLIT).
- The [Korea Fair Trade Commission](#) (KFTC).

For government projects, the General Terms and Conditions of Construction Contracts (GTCCC) published by the [Ministry of Economy and Finance](#) (MOEF) serve as the general terms and conditions, while special terms can be added based on the requirements of the relevant project.

For local government projects, the GTCCC of Local Governments published by the [Ministry of the Interior and Safety](#) (MOIS) are commonly used as the general terms and conditions.

For private projects, there are no standardized forms of contract. Employers can use:

- The GTCCC.
- Contracts based on the standardized MOLIT contracts.
- Contracts drafted by the contractor.

PPP Projects

The [Korea Development Institute's Public and Private Infrastructure Investment Management Center](#) has published a model clause PPP agreement.

The Korea Development Institute regularly updates the standard forms of PPP project agreement for both BTO and BTL contracts, factoring the increased minimum wage into the consumer price index.

As of 2024, these standard agreements remain in use, providing a structured and predictable approach to PPP contracts, helping to balance risk between public and private sectors in a wide range of infrastructure projects. Additionally, these contracts have become essential for the smooth execution of large-scale infrastructure projects in sectors such as transportation, renewable energy, and environmental management.

International Projects

For large scale international projects, parties separately negotiate and agree the terms of the contract. Foreign investors employ International Federation of Consulting Engineers (*Fédération Internationale des Ingénieurs-Conseils*) (FIDIC) contracts frequently for their projects with Korean contractors in South Korea. For more information, see [Practice Note, FIDIC Forms of Contract](#).

Contractual Provisions

Contractors' Risks

In South Korean construction contracts, several types of risks are typically allocated to the contractor. These risks and the ways in which they are managed or offset are as follows:

- **Ground condition risk.** Contractors usually bear the risk associated with subsurface and ground conditions unless the situation falls under an unforeseen event. The [Framework Act on the Construction Industry \(FACI\)](#) invalidates clauses that transfer responsibility for matters that could not have been reasonably anticipated at the time of the contract was concluded, taking into account all the relevant conditions, for example, the project type and scope of work. Therefore, clauses that transfer responsibility for unexpected ground conditions to the contractor are invalid if the conditions could not have been reasonably anticipated at the time of the contract, given the project type and scope of work.
- **Extent of design liability.** In design and build contracts, the contractor is responsible for both the design and construction aspects of the project. The contractor's liability for design-related risks is extensive, with limited opportunities for price adjustments unless predefined conditions are met. Any failure in the design resulting in issues can lead to penalties or financial liability.
- **Fitness for purpose warranties.** Fitness for purpose warranties are dealt with as defect liability in South Korea. Article 677 of the [Korean Civil Code](#) provides that the contractor is liable for any defect in the completed subject-matter of a work or in a certain part of the subject-matter of a work which has been finished before the completion of

all the work. Although the Civil Code does not define the meaning of defects, it is widely recognized that a defect is understood as "the completed work is not as specified in the contract and has imperfections," where "imperfections" are defects that reduce the use value or exchange value of the object or lack of the promised quality.

- **Change in law risk.** In some contracts, risks arising from changes in law are passed onto contractors, which can lead to increased project costs or delays. However, contracts often include provisions allowing for adjustments if new regulations significantly affect the project.
- **Performance security.** Contractors are typically required to provide performance security, such as performance bonds or guarantees, to protect the employer if the contractor fails to meet contractual obligations. This security ensures that, should the contractor default, the employer can recover losses or arrange for the project's completion through alternative means.

In a fixed fee contract, the contractor may be liable for additional costs incurred within the specifically agreed work scope under the drawing and specification. However, if relevant provisions for the items at issue are deemed objectively omitted or amended, the contracted price can be adjusted (if allowed by the agreed terms and conditions and additional payments can be certified).

In a design and build contract, the contracted price will be adjusted under limited circumstances only when the specific agreed condition is satisfied.

Certain risks can be avoided by agreeing to categorize them as force majeure events. Parties can also acquire insurance to offset the allocated risks.

Excluding Liability

The contracting parties can agree to restrict or exclude liability at a pre-determined rate (liquidated damages). Unless this restriction or exclusion of liability is severely biased against a certain party, the provision is usually valid and enforceable.

If the contracting parties agree to exclude compensation for the incidental or consequential damages or loss of business or profits under a construction contract, that agreement is also valid and enforceable. Without specific agreement, under South Korean law, indemnification against special damages (which are similar to incidental and consequential damages) is recognized to the extent the damages are foreseeable.

Caps on Liability

For government construction contracts, liquidated damages are capped at 30% of the total contract amount.

Caps on liability are not generally used in private construction contracts. However, the parties can agree to limit the liquidated damages at a certain percentage of the contract price. These caps are often adopted in international projects at the contractor's request.

Liability is not typically capped for damages resulting from personal injury to a third party.

Force Majeure

Force majeure exclusions are available and enforceable. The parties commonly agree the definitions of a force majeure event and its effect on their rights and obligations in construction contracts.

Even without a force majeure provision, the Korean Supreme Court has held that, where there are construction delays due to acts of god or other similar events, the contractor will not be liable for damages resulting from the delay (for example in Supreme Court Decision 2001Da1386, 4 September 2002).

Article 537 of the Korean Civil Code provides that where a party cannot be expected to perform its obligations under a contract due to any cause for which neither of the parties is responsible, a party can be excused from liability for its non-performance.

Material Delays

Contracts commonly include provisions governing liquidated damages and the employer's termination of the contract in case of material delay. In practice, the liquidated damages for these delays are usually set at the rate of 0.1% of the contract price per day.

When a contractor is entitled to extend the contract period, the provision relating to liquidated damages is often omitted.

In a public contract, if the construction work is delayed for reasons not attributable to the contractor, the contractor is usually granted the right to extend the contract period. However, in a private contract, the scope of the extension right can be significantly restricted, depending on what the parties have agreed.

Variations

In general, construction contracts contain variation clauses that set out when the employer and contractor will be entitled to a variation order allowing an additional payment or an extension of time or both.

In private contracts, the parties typically negotiate how additional consideration for design variations will be determined. For instance, they may agree that certain adjustments are classified as variation orders for refinement or correction. However, if these adjustments are necessary because of the contractor's own defective work or a breach of agreed terms, the contractor would be responsible for rectifying the defects at no additional cost, and such adjustments must be completed before the final project deadline.

Other Negotiated Provisions

Heavily negotiated provisions include:

- The ground condition risk.
- The causes and process for adjustment of costs.
- The causes for contract termination.
- The causes and process for suspension of construction.
- The inspection of construction works.
- The extension of the construction period.
- The repair of defects.
- Subcontracting.
- The party responsible for obtaining insurance.

For international projects, negotiation is also necessary with respect to:

- The inspection authority.
- The payment method for construction works and the party responsible for loss on foreign currency transactions.
- The dispute resolution method and governing law.

Rights of Third Parties Under Contracts

The rights of a non-contractual third party (for example, a funder) can vary depending on the terms and conditions of the relevant funding arrangement and construction contract. There are no specific restrictions that apply under South Korean law. However, unless a separate, binding agreement has been executed by the contracting parties and a third party, a third party cannot enforce the terms of a contract if they are a non-contracting party. To give a third party enforceable rights, the contracting parties would need to include specific provisions or execute a tripartite agreement.

Architects, Engineers, and Construction Professionals

Selection and Appointment

Construction professionals for public projects are selected through competitive bidding. Construction professionals for private projects are hand-picked by the employer or selected through competitive bidding. However, there are cases, for example, apartment buildings projects, where the law requires construction supervisors to be selected by the competent government authority, even in private projects.

Professionals' Contracts

Negotiated Provisions

As construction professionals' appointments take place through service agreements, the most heavily negotiated provisions concern price, termination, and contract period.

Caps on Liability

In practice, limiting liability is not generally discussed during the appointment of construction professionals. However, parties can agree to limit the professional's liability for liquidated damages.

Payment for Construction Work

Methods of Payment

There are no set legal procedures for paying contractors. The contract typically determines the methods of payment among multiple parties. However, the law regulates payment method and order for subcontractors (see [Subcontractors](#)).

Fixed fee contracts are common for domestic projects (see [Local Projects](#)). The most common method of payment is a partial advance payment with subsequent payments at every milestone, usually at one-to-two-month intervals, as agreed between the parties.

Securing Payment

A construction contractor has the right to stop work (unless prohibited by law) if they have not received payment and there is no reasonable expectation of receiving payment for future work (Article 536(2), Korean Civil Code). A contractor can also take a lien over the employer's land or improvements to it and refuse to hand over the property under certain conditions. If the employer asks the contractor to provide a performance guarantee, the contractor can in turn request the employer to provide a payment guarantee.

In development projects, it is common to have a funds management agreement in place, under which profits from the development are managed by a trust and distributed to the project's investors and creditors in certain pre-agreed circumstances. Contractors will be paid after the investors and creditors are paid. This prevents the employer from arbitrarily collecting development profits.

Subcontractors

Articles 29 and 31 of FACI set out the conditions and circumstances under which a contractor is allowed to hire subcontractors in construction contracts. An employer can request an amendment of the contract with the subcontractor if it determines that the terms and conditions are not appropriate. Unless there are justifiable grounds to refuse, the subcontractor is required to follow this request. In addition, within the scope of the contracted works, the subcontractor owes the same obligations to the employer as the contractor owes to the employer.

The [Fair Transactions in Subcontracting Act](#) and FACI place an obligation on the employer to pay subcontractors directly if requested under any of the following circumstances:

- The contractor cannot pay the subcontractor due to the contractor's default, bankruptcy, or cancellation of its business registration as a contractor (Article 14(1)1, Fair Transactions in Subcontracting Act; Article 35(2)4, FACI).
- The contractor has failed to pay two or more instalments of the subcontract price to the subcontractor (Article 14(1)3, Fair Transactions in Subcontracting Act; Article 35(2)3, FACI).
- The contractor has failed to perform its obligations under a payment guarantee (Article 14(1)4, Fair Transactions in Subcontracting Act; Article 35(2)5, FACI).

The employer is also obliged to pay subcontractors directly when:

- The employer, contractor, and subcontractor have agreed that the employer will pay the subcontractor directly (Article 14(1)2, FACI).
- In a lawsuit against the contractor, the subcontractor has obtained a final judgment in its favor, ordering payment for the works performed by the subcontractor (Article 35(2)2, FACI).

Licensing

A company that intends to operate a construction business must register the business with the MOLIT, according to its area of work, and meet prescribed requirements regarding technical capacity, capital, facilities, and equipment. There are additional requirements for non-Korean:

- **Natural persons:** a foreign national is eligible for a working visa, and the value of their assets must meet a certain threshold.
- **Companies:** a foreign company must establish and register an office in South Korea, and the capital of the company's principal office must exceed a certain threshold. With respect to the technical capacity requirement, a foreign company's experience outside South Korea may also be considered by the MOLIT.
- **Architects:** a foreign-certified architect can only perform design or construction supervision services provided the services are rendered jointly with a person who has established a certified architect's office in South Korea. A foreign-certified architect must obtain a Korean architect's license if they wish to provide services independently.

Before starting construction works, both parties must comply with legal requirements, which include obtaining various permits and consents as prescribed by local and national laws. These may vary based on the nature and scope of the project, but typically include:

- **Building permits.** A building permit is required for most construction projects. This ensures that the project complies with local zoning, land use regulations, and safety standards. The permit is issued after a review of construction plans.
- **Environmental approvals.** If the project could impact the environment (for example, affecting air quality, water resources, or ecosystems), an environmental impact assessment (EIA) and corresponding approvals from environmental authorities are necessary.
- **Planning consents.** Planning consents may involve approvals related to the land-use plan, zoning laws, and adherence to urban planning regulations. The employer must typically submit a detailed business plan that demonstrates how the construction project fits into broader regional development plans.
- **Fire and safety clearances.** Depending on the size and type of construction, clearances from fire safety departments may be required to ensure that the building design meets fire safety regulations.
- **Utilities and infrastructure approvals.** Permits for connecting to public utilities such as electricity, water, sewage, and gas services must be obtained. Additional permits may be needed if the project affects public roads or infrastructure.

In practice, the employer (or project owner) is usually responsible for securing approval for the business plan and obtaining relevant permits and consents related to the project before construction begins. This is often stipulated in the construction contract, placing the onus on the employer to ensure all necessary approvals are in place to avoid delays.

Failure to obtain these permits before the commencement of work could result in legal penalties, project delays, or even orders to halt construction. The timeline for obtaining these approvals varies and can impact the overall schedule of the project. Therefore, careful planning and coordination are essential.

When constructing buildings of a certain use, scale, or structure, the parties must designate a licensed architect or construction engineering consultant to supervise and inspect the project, depending on the nature of the project, for example, for office buildings or power plants.

If the employer seeks to use a building after construction is complete, it must submit a supervision completion report prepared by the construction supervisor and a construction completion report to the relevant local governmental authority and obtain a permit for use.

Projects Insurance

Compulsory Insurance

A contractor must generally maintain the following insurances during the construction period:

- Employment insurance.
- National pension insurance.
- Health insurance.
- Long-term care insurance.
- Industrial accident compensation insurance, which covers damages incurred for personal injury or death suffered by the contractor's employees during the construction period.

For public projects, the contractor must also obtain insurance for construction loss in certain types of construction works, if the project exceeds a certain threshold.

Non-Compulsory Insurance

Although not required by law, contractors generally take out employer's liability insurance and contractor's all-risk insurance during the construction period. Employer's liability insurance provides cover for employee-related risks that are not covered by the mandatory industrial accident compensation insurance. Contractor's all-risk insurance provides coverage for all risks related to damaged buildings or property, compensation to third parties, and damages incurred by construction delays.

Employment Laws

The applicable labor laws are:

- The [Labor Standards Act](#). This provides the minimum standards for employment regarding wage, working hours, and compensation for accidents.
- The [Act on Employment Improvement of Construction Workers](#). This requires employers to establish a mutual-aid association and pay retirement benefits to construction workers, if the employer meets a certain threshold.
- The [Act on Collection of Insurance Premiums for Employment Insurance and Industrial Accident Compensation Insurance](#). This regulates the payment of claims and premiums of Employment Insurance and Industrial Accident Compensation Insurance, both of which are types of mandatory insurance.
- The [Minimum Wage Act](#). This guarantees payment of the minimum wage to employees.
- The [Wage Claim Guarantee Act](#). This provides measures to guarantee the payment of overdue wages and so on to employees.

Health and Safety

The [Occupational Safety and Health Act](#) (OSHA) governs issues related to health and safety in projects. Under the OSHA:

- An employer must take measures necessary to prevent hazards and health problems and workers must abide by these measures.
- If a contractor determines that there is a high risk that an industrial accident will take place while undertaking construction works, the contractor can obtain an expert opinion and request the employer to change the project design (provided that the contractor was not contracted to provide the project design in the first place).
- If an employer determines that there is an imminent risk that an industrial accident or an otherwise serious accident may occur, they must immediately suspend all works and evacuate workers from the construction site or take other similar health and safety measures before recommencing works.
- The employer must provide regular health and safety training to workers, as prescribed by the MOEL.
- Where a portion of works is harmful or dangerous to health and safety, the employer cannot separate these works and assign them to a contractor (or subcontractor) without first obtaining authorization from the MOEL.

Serious Accident Legislation

Separately, in January 2021, the Korean National Assembly passed the [Serious Accident Punishment Act](#) (SAPA), which imposes criminal liability on individuals and entities responsible for "severe accidents" (effective since 27 January 2022 for companies with 50 or more employees). A severe accident includes:

- Accidents at industrial sites, for example, at factories and construction sites.
- "Public" disasters caused by defects in the design, manufacture, installation, and management of products, product ingredients, or public facilities and transportation.

(Article 2, SAPA.)

SAPA imposes criminal liability against:

- Business owners or executives (as defined by the law) who fail to ensure the safety of their business operations.
- Businesses or institutions which fail their supervisory duties.

(Article 4, SAPA.)

SAPA also imposes punitive damages of up to five times the amount of actual damages for willful misconduct or gross negligence.

These workplace health and safety obligations are owed to a broader scope of workers than obligations under the existing OSHA. SAPA applies to any worker, including any third party's employees and regardless of the form of contract, who provides services to the company through the use of any facilities, equipment, or workplace that the company substantially controls,

operates, or manages. This can include a workplace that is not provided or designated by the company but controlled or managed by the company.

These safety obligations are very broad and are owed to all members of the public who could be harmed by goods or services.

As of 2024, significant challenges still exist in determining the full scope of compliance, particularly in predicting whether a company has met all its obligations before an incident occurs. The [Korean Ministry of Employment and Labor](#) has issued more detailed guidelines, but many areas remain subject to interpretation, especially in assessing "due diligence" in preventing accidents.

Given this uncertainty, companies may find it difficult to confidently determine whether they have fulfilled their legal duties under SAPA. This ambiguity is particularly pronounced in sectors with complex subcontracting chains or in situations where a company's control over a worksite is indirect.

To reduce legal risks, it is prudent for businesses to:

- Regularly conduct health and safety compliance reviews.
- Implement or enhance comprehensive control systems to ensure ongoing compliance with safety obligations.
- Establish internal safety auditing mechanisms to track compliance on a continuous basis and identify potential hazards before they lead to accidents.

Proactive engagement in safety practices, coupled with ongoing training for employees and management, will also help mitigate risks and demonstrate due diligence under SAPA's requirements. Continuous improvements in workplace safety controls remain a key strategy for minimizing liability and ensuring compliance with both the letter and spirit of the law.

Environmental Issues

Air

The [Clean Air Conservation Act](#) requires each business entity to ensure that emission facilities and prevention facilities are properly operated by taking measures, for example, the installation of measuring devices, to ascertain whether the pollutants discharged from these emission facilities meet the permissible levels.

Water

The [Water Environment Conservation Act](#) requires any urban development project, industrial complex development project, or other similar project that produces pollutants exceeding a certain threshold to be reported to the Ministry of Environment (MOE).

The [Sewerage Act](#) provides that, where discharge of sewage is allowed in an area, the owner or caretaker of land (or of facilities on the land) in the area must:

- Discharge sewerage produced from the area into the public sewerage system.
- Install draining systems for this purpose.

Waste

The [Wastes Control Act](#) regulates the processing of waste.

The [Construction Waste Recycling Promotion Act](#) provides guidelines on the processing of waste for persons who discharge, collect, transport, and store construction waste and other intermediary operators.

Noise Emissions

The [Noise and Vibration Control Act](#) provides that if noise and vibration emitted from a construction site exceeds a certain threshold, the competent local government can order the party producing the noise or vibration to take measures necessary to control it, for example, adjusting working hours or installing soundproofing equipment.

Sustainable Development

The [Environmental Impact Assessment Act](#) provides that EIAs are required for:

- Projects involving urban development.
- Development of industrial sites and complexes.
- Energy development.
- Construction of roads, rail, ports, and airports.
- Water resources development.
- Development of special areas.
- Installation of waste disposal facilities.

An employer that obtains permits or other consents for the implementation or execution of plans that have an environmental impact must prepare a draft assessment report and request the approving authority to designate the items that must be covered under the EIAs.

Where the project does not have to obtain these permits or consents, the employer must prepare a draft assessment report and determine terms of the EIAs through deliberation with the Committee on Assessment Plans of Environmental Impacts (a committee organized by the Minister of Environment, the head of planning authority, or the head of approving authority). The employer must also consult local residents regarding the draft report and include these opinions in the EIAs.

There are no overriding requirements to use sustainable construction practices. However, the Construction Waste Recycling Promotion Act designates certain projects as construction works subject to the use of recycled aggregate, for which the use of recycled construction waste is mandatory. Under this Act, any person who plans these construction works must require the contractor to use recycled construction waste that meets the standards prescribed by presidential decree.

Carbon Emissions or Other Targets

Since 1 January 2020, all public buildings larger than 1,000 square meters in South Korea have been required to meet zero-emission building (ZEB) grade five standards, which means achieving an energy self-sufficiency rate of 20% to 40%. This is part of South Korea's broader effort to combat climate change by reducing carbon emissions from the built environment. The

government extended this requirement to public buildings larger than 500 square meters by 2023, reflecting its ongoing push toward more sustainable construction practices.

This initiative is backed by substantial investment, with the current administration allocating approximately USD2.53 billion by 2025 to support the transition to energy-efficient buildings. The government's long-term goal is to promote zero-emission and energy-efficient standards across not only public infrastructure but also commercial and domestic buildings, aligning with national climate targets. These measures are critical for helping South Korea meet its carbon neutrality goals by 2050, as outlined in its Green New Deal policies.

Additionally, private developers and commercial building owners are being encouraged through incentives such as tax breaks and subsidies to adopt green building standards that exceed current regulations, further reducing overall carbon emissions in both the commercial and residential sectors.

Prohibiting Corrupt Practices

Rules

A public official who receives, demands, or promises to accept a bribe (whether for themselves or a third party) is subject to a criminal penalty (Article 129, [Korean Criminal Code](#)). The same applies to a person who promises, gives, or shows the intent to give a bribe to a public official. "Public official" also includes officials of certain public institutions including, but not limited to, the Korea Land and Housing Corporation, the Korean Highway Corporation, and the Korea National Railway.

Where the amount of a bribe exceeds KRW30 million, the sanctions applicable to the bribe can be increased under the [Act on the Aggravated Punishment of Specific Economic Crimes](#).

The [Improper Solicitation and Graft Act](#) further imposes liability for providing a financial or other advantage (for example, cash, gifts, food and beverages, entertainment, transportation, lodging, or other benefits) to a broadly defined category of "public officials" which include:

- Government employees.
- Heads of quasi-governmental organizations and public institutions.
- Principals and staff of schools.
- Executives and employees of education corporations and media companies.

Article 8 of the Improper Solicitation and Graft Act prohibits the provision of economic benefits worth more than KRW1 million per instance, or more than KRW3 million in a fiscal year to a public official, irrespective of whether the conferring of economic benefit was related to official duties, with certain specific exceptions.

In addition, following a real estate speculation scandal involving officials at one of the state companies, who allegedly used undisclosed information for their personal purchase of undeveloped land around Seoul, the National Assembly recently passed the [Act on the Prevention of Public Officials' Conflicts of Interest](#), which has been in effect since 19 May 2022. The purpose of this Act is to prevent conflicts of interest that can arise while public servants perform their duties by prohibiting them from pursuing private interests in connection with the performance of their duties.

An employer, contractor, subcontractor, or other interested person cannot acquire or provide profits in property or anything of value in exchange for making an unlawful request in connection with the conclusion or execution of a construction contract

(Article 38-2, FACI). Any person who violates this rule is subject to a criminal penalty. A construction company can also be subject to administrative sanctions, for example, business suspensions or the termination of its business registration for violating this rule.

Penalties

The following penalties apply:

- A public official who receives a bribe under the Criminal Code: a prison term of up to five years, or suspension of qualifications for up to ten years. If the public official committed an unlawful act after receiving the bribe, they are liable to a prison term of one year or more.
- Any person who provides a bribe to a public official under the Criminal Code: a prison term of up to five years or a fine of up to KRW20 million.
- Where the Act on the Aggravated Punishment of Specific Economic Crimes applies: a prison term of five years or more, depending on the amount of the bribe.
- A person who provides or receives a bribe to or from a party under FACI: a prison term of up to five years or a fine of up to KRW50 million.
- A public official who receives economic benefits over a certain value under the Improper Solicitation and Graft Act: a prison term of up to three years or a fine of up to KRW30 million.
- An official at central and local governments and state-run public corporations who make personal gains by using insider information under the Act on the Prevention of Public Officials' Conflicts of Interest: up to seven years in prison or a fine of KRW70 million.
- A person who provides economic benefits over a certain value under the Improper Solicitation and Graft Act: a prison term of up to three years or a fine of up to KRW30 million.

Bankruptcy or Insolvency

Clients

If the contractor becomes bankrupt or insolvent before construction is complete and cannot perform their obligations, an employer (a client) can terminate the contract (if the contract contains a provision, or under Article 546 of the Civil Code if there is not) and seek compensation of damages resulting from the contractor's non-performance.

If the contractor is declared bankrupt or has entered rehabilitation (a procedure or plan under which a commissioner is assigned to rehabilitate or liquidate the debtor on the brink of bankruptcy/insolvency) proceedings under [the Debtor Rehabilitation and Bankruptcy Act](#), the trustee/court receiver can either:

- Terminate the contract.
- Order the contractor to continue performance of the contract and ask the employer to do the same.

The employer can request a fixed period of time for the trustee/court receiver to determine whether to terminate the contract after the bankruptcy/rehabilitation proceedings begin. If there is no definite response from:

- The trustee, the contract will be deemed terminated in a bankruptcy.
- The court receiver, they will be deemed to have waived the right to terminate the contract in a rehabilitation.

If the contract is terminated, the employer can claim damages as a bankruptcy or rehabilitation creditor.

Funders

Whether a funder is eligible to claim damages can vary depending on the terms and conditions of the relevant funding arrangement and construction contract. There are no specific restrictions that apply under Korean law.

Contractors

Another contractor, for example, a subcontractor or agent, can have contractual rights against the contractor subject to bankruptcy or insolvency depending on the arrangement under the relevant contract. However, in principle, under the scheme of bankruptcy or insolvency, participation in the bankruptcy or rehabilitation procedure or both by the means of prompt reporting of the claims to the relevant court is required for the claimant to be eligible for monetary distribution.

Consultants

Consultants can also have contractual rights against the contractor subject to bankruptcy or insolvency depending on the arrangement under the relevant contract. Consultants will have to go through similar procedures as clients and contractors (for example reporting the claims to the relevant court) to be entitled to distribution.

Dispute Resolution

Laws on Dispute Resolution

In general, there are no specific laws relating to how construction disputes must be resolved. If there are specific dispute resolution provisions in the relevant agreements, they will generally prevail. Alternative dispute resolution methods provided for in various laws can also be used to resolve construction disputes.

Dispute Resolution Methods

Domestic construction disputes are typically resolved by court litigation, while there is tendency for cross-border construction disputes (those involving foreign parties) to use the international arbitration centers for arbitration and mediation under the respective dispute resolution provisions in the construction contracts. For further information, see [Country Q&A, Arbitration Procedures and Practice in South Korea: Overview](#).

Courts and Arbitration Organizations

Court litigation is handled in district courts and high courts that usually have specialized divisions for construction disputes. Seoul Central District Court (for the first instance level) and Seoul High Court (for the second instance level), among others, are the most frequently visited venues for the construction cases.

Domestic construction arbitration is usually administered by the [Korean Commercial Arbitration Board \(KCAB\)](#). When foreign parties are involved, given the international nature of the disputes, the [International Chamber of Commerce \(ICC\)](#) is usually selected by the contracting parties to administer the cases.

Tax

Tax Issues in Construction Projects

Acquisition Tax

Acquisition tax is charged on the price of real estate, motor vehicles, construction equipment, golf membership, boats, and similar items. The tax rate varies depending on the type of assets subject to the tax, ranging from 1% to 7%. The tax is usually levied at 4.6% of the acquisition cost on a purchase or 3.16% on a construction or reconstruction, including surtax. However, heavy taxes on an acquisition are levied in the form of additional acquisition taxes if a weighted rate is charged on acquisitions in a designated metropolitan area or on acquisition of luxury items, for example, villas, golf courses, and yachts.

A 12% acquisition tax rate applies to the acquisition of residential house by a corporation.

Property and Real Estate Tax

Property tax includes the following three categories:

- Property tax for land. Any person or corporation who owns land as of 1 June of each year is annually liable for the property tax for land. The rate is generally 0.2% to 0.5% on 70% of the land's value determined by the local government and applies to land annexed to an office building with a certain limit (generally, three times the floor of the office building).
- Property tax for buildings. Any person or corporation who owns a building as of 1 June of each year is annually liable for 0.25% (4% for buildings for luxury leisure sites such as golf courses) of 70% of the building's value determined by the local government.
- Property tax for residential houses. Any person or corporation who owns a residential building as of 1 June of each year is annually liable for 0.15% to 0.5% of 60% of the building's value determined by the local government.

Comprehensive real estate tax includes the following two categories:

- Comprehensive real estate tax for residential houses. Any person or corporation who owns a residential house as of 1 June of each year is annually liable for comprehensive real estate tax of the house's value determined by the local government, at:
 - 0.6% to 6% for an individual; and
 - 3% to 6% for a corporation.

The applicable tax rate may vary depending on the value of the house.

- Comprehensive real estate tax for land. Any person or corporation who owns land as of 1 June of each year is annually liable for comprehensive real estate tax generally of 0.5% to 3% of the land's value determined by the local government, depending on the value of the land.

Disposal Tax

Any gains on the transfer or disposal of real property are subject to corporate tax (for a corporation) or transfer income tax (for an individual).

VAT

VAT at a rate of 10% is generally payable on the supply of assets and services. However, land is not subject to VAT. If a sale includes both the land and building, VAT is payable on the portion of the sales price that is pertinent to the building.

Proceeds in relation to or arising out of the construction contracts are generally subject to VAT. In practice, an employer typically agrees to pay an amount equivalent to the relevant VAT to the contractor in addition to the construction cost.

Mitigating Tax

There are no particular methods used to mitigate tax liability on projects. However, a small or medium enterprise that engages in the construction business may be eligible for a tax reduction or exemption equivalent to the amount of tax calculated by multiplying the income tax or corporate tax levied on the income accrued from the relevant place of business for the taxable years that end on or before 31 December 2022 by reduction rates ranging from 5% to 30%.

Tax Incentives

Where urban regeneration is ordered, state and local governments can reduce taxes, for example, corporate tax, income tax, acquisition tax, registration license tax, and property tax for the implementer of an urban regeneration project ([Restriction of Special Taxation Act](#) and the Restriction of Special Local Taxation Act).

Developments and Reform

Several significant trends and proposals are poised to impact South Korea's construction sector in the near future:

- **Increased use of PPPs for SOC projects.** PPPs are becoming more prevalent in SOC projects, such as infrastructure development, including roads, bridges, and public buildings. The government is actively promoting PPPs to diversify funding sources, mitigate financial risks, and leverage private sector expertise in managing large-scale projects.
- **SPVs and financial investors.** The use of SPVs and financial investors in construction projects is growing, particularly to manage risks associated with project financing, execution, and long-term operation. These vehicles help spread financial exposure across multiple stakeholders and investors, increasing project stability and reducing the burden on single entities.
- **Technological advancements.** The increased adoption of technology is transforming the construction industry. In particular, Building Information Modelling (BIM) is becoming more widely used to improve project planning, collaboration, and efficiency in both design and construction phases. BIM helps streamline workflows, reduce errors, and minimize delays, contributing to better project outcomes. Additionally, modular construction and off-site manufacturing are gaining traction as more efficient and cost-effective construction methods.

- **Worker safety reforms.** In line with SAPA, the government is enforcing stricter regulations for worker safety at construction sites. These new regulations place greater responsibility on business owners and executives to ensure workplace safety, and significant penalties, including criminal liability, are imposed for violations. The impact of these changes is still unfolding, but they are expected to influence project timelines, costs, and management structures in the long term as companies adapt to the stricter requirements.
- **Sustainability and carbon emission goals.** The government's focus on reducing carbon emissions is also shaping the future of construction. With the drive toward zero-emission buildings and sustainable construction methods, companies are increasingly incorporating energy-efficient technologies and environmentally friendly materials into their projects. This trend is supported by government funding and regulatory reforms aimed at meeting South Korea's 2050 carbon neutrality goals.
- **Public procurement reform.** There are ongoing discussions about reforms to public procurement law, aimed at enhancing transparency, competition, and efficiency in the awarding of public construction contracts. These reforms would simplify the bidding process, encourage the participation of more private sector players, and reduce the potential for corruption in public project allocations.

These developments reflect an ongoing transformation in South Korea's construction industry, driven by technology, sustainability, and stricter safety regulations. Companies will need to adapt to these trends to remain competitive and compliant with new laws and policies.

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