

# **Advancing the Construction Industry**

## **by Amending Direct Contracting Requirement**

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### **Summary**

**1. Need for improvement:** In Korea, there is consensus on the need to make adjustments to the self-performing requirements in place in the construction industry. The current regulations, established to benefit the construction industry as a whole, require contractors to perform a certain portion of their work with their own organization—that is, without the use of subcontractors. But whereas most persons would agree that the system needs improvement, opinions are divided over specific measures to accomplish that goal.

**2. Current situation:** The percentage of construction projects where such requirements apply is increasing, and the industry recognizes the positive impact of this development. But experts believe oversight needs to be improved and that there should be flexible criteria to determine when limitations on subcontracting apply.

**3. Similar cases overseas:** All contracts, including those governing construction projects, require the stated parties to perform the work required by those contracts themselves. In the United States, public construction projects state that the main contractor must self-perform a certain portion of the construction service. In Japan, there is a company performing the entire works for a construction project without hiring subcontractors.

**4. How to improve the system:** Improvements should focus on advancing the production system within the construction industry. Regulations should consider different areas of specialization within the construction field and should mandate better field monitoring. To that end, there should be active discussion of possible amendments to the existing regulations.

## **Policy Implications**

- ① The minimum percentage of self-performance should differ by category in consideration of different areas of specialization within the construction field. This will also help policy makers uncover more pragmatic means of addressing cases of illegal subcontracting.
- ② It is necessary to strengthen the monitoring system to ensure that builders are fulfilling their obligations under the system, and to introduce incentives to do so.
- ③ The criteria to determine the mandated ratio of self-performing for a particular project should be simplified. Instead of the ratio of total construction costs, requirements should be based on the ratio of labor costs. This simplified formula might facilitate the implementation of the two recommendations mentioned above.