South Korea
Opportunities and barriers to inbound construction

G20 rankings & data

G20 heatmap rankings

<table>
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<tr>
<th>Construction industry health</th>
<th>15</th>
<th>15</th>
<th>9</th>
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<tbody>
<tr>
<td>Construction industry value</td>
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<tr>
<td>Construction industry, real growth</td>
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<tr>
<td>Announced spend on construction in next 3 years</td>
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Country financial health

<table>
<thead>
<tr>
<th>Budget balance</th>
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<tr>
<td>Overall announced fiscal stimulus</td>
<td>10</td>
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<tr>
<td>GDP/Head</td>
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<tr>
<td>Credit ratings rank</td>
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Ease of doing business

<table>
<thead>
<tr>
<th>Doing business overall rank</th>
<th>8</th>
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<tbody>
<tr>
<td>Dealing with construction permits rank</td>
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</tr>
<tr>
<td>Business transparency rank</td>
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Tax regime

<table>
<thead>
<tr>
<th>BDO overall tax rank</th>
<th>3=</th>
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<tr>
<td>World bank – paying taxes rank</td>
<td>5</td>
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Financial metrics

- **Total fiscal stimulus announced**: £8bn
- **Announced spend on construction in the next 3 years including fiscal stimulus to construction**: £26.8bn
- **Construction industry value – 2009**: £27bn
- **Main corporate tax rate**: 25%

Construction sector metrics

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td>Value, £bn</td>
<td>26</td>
<td>27</td>
<td>27</td>
<td>28</td>
<td>29</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Real growth, per cent y-o-y</td>
<td>3.0</td>
<td>-1.3</td>
<td>-1.5</td>
<td>-2.0</td>
<td>0.8</td>
<td>0.8</td>
<td>-</td>
</tr>
<tr>
<td>Construction industry, per cent of GDP</td>
<td>5.9</td>
<td>6.2</td>
<td>5.5</td>
<td>4.9</td>
<td>5.0</td>
<td>4.8</td>
<td>-</td>
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BDO review of tax

- The headline tax rates is one of the lower amongst the G20
- The thin capitalisation regime is not overly burdensome compared to certain other countries
- The tax depreciation system is not untypical
- Particularly beneficial tax incentives apply in certain joint venture situations

**Overall scoring**: 7/10

3= out of the G20

BDO ease of doing business

There are some minor barriers but the size of the opportunity still outweighs these

Ranks:

1. Very easy
2. Quite easy
3. Average
4. Quite difficult
5. Very difficult

Top construction firms

- GS Engineering & Construction
- Daewoo E&C Co. Ltd.
- Hyundai Engineering & Constr. Co. Ltd
- Samsung C&T Corp.
Opportunities and barriers

Ranked 10th overall in our G20 heatmap, it is forecasted that South Korea’s construction industry will be worth KRW56.5tn (£27.4bn) in 2009. Growth is however expected to slow, the sector is expected to decline in 2009 (by 1.5 per cent) and by 2.0 per cent in 2010. The number of workers employed in the country’s construction sector has reached 1.9m in 2008 and makes up roughly 8 per cent of South Korea’s total workforce.

In March 2009 South Korea unveiled an economic stimulus package worth an estimated KRW17.7tn (£8.6bn) to boost its economy in the face of the looming global recession. The stimulus, equivalent to 1.9 per cent of GDP builds on a previous package announced in mid-2008 which included KRW51tn (£23bn) in tax cuts and infrastructure spending. The public infrastructure element of the stimulus package will focus on creating jobs in the collapsing construction sector and bolstering domestic demand. Two thirds of these funds are scheduled to be disbursed in the first half of 2009.

The South Korean government said that it will encourage public and private companies to invest a total of KRW55tn (£24bn) on infrastructure projects in 2009. The government stated that it will ask state-owned companies such as the Korea Expressway Corporation and the Korea Land Corporation to spend a total of KRW4.8tn (£1.8bn) on new projects in roads, railways and other public infrastructure. In regards to the private sector, the government is seeking investments of up to KRW1.2tn (£583m). According to reports by the local press, these investments will be in addition to the KRW4.6tn (£2.2bn) already earmarked for spending in 2009.

In November 2007, South Korea won the right to host the 2012 World Exposition (World Fair). The event is the third largest international event and South Korea will spend an estimated $8.3bn (£5bn) in the run-up to the Expo to speed up rail and road construction projects that are already in place.

Priority areas identified in the recent stimulus package include: New recreational developments along the country’s four major rivers, investment in the shipping sector and ports, improvements to the land transportation system, including the expansion of a high-speed rail service and significant investment in roads and motorways.

In 2007, the total number of PPP projects (including all projects under operation (95), under construction (138), preparing to construct (57), under bidding (31)) were 412.

Reasons South Korea is attractive for inbound construction activity

- South Korea offers a stable and relatively benign business environment with a good tax situation.
- Publicly driven expenditure on infrastructure projects are expected to rise in the run-up to the 2012 World Fair.
- The PPP environment is also good.

Barriers/challenges to construction activity

- South Korea is only hampered by a relatively low spend on construction in the short term.
- The announced financial stimulus package is not as extensive as other G20 nations.
- Anticipated growth in the construction industry is expected to be one of the lowest rates in the G20, ranked 15th.
- South Korea’s economy declined by 3.4 per cent in Q4 of 2008 and exports dropped 32.8 per cent.

BDO viewpoint and advice

Pitfalls to avoid when doing business in South Korea

- The regulatory environment can still be confusing for foreign businesses, with often vaguely worded laws interpreted differently by various government departments. In addition, South Korean legislators frequently use a wide interpretation of the term ‘national security’ in order to bar foreign competition in certain sectors.

Practical advice for inbound construction activity

- The complex regulatory environment requires advisors with a presence on the ground in South Korea.
- Building up knowledge of the local situation and dealing with different government departments can be boosted by forming partnerships or alliances with existing construction companies.
- As with other countries, it is useful to build relationships with local stakeholders in South Korea – e.g. the local NGOs, including Construction Associations.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:

- Buildings – Tax depreciation is allowed on a straight line basis according to rates published by ministerial decree.
- Other tangible fixed assets – tax depreciation is available either using a fixed percentage method or the straight line method, at prescribed rates.

Other incentives:

- A tax deferral is available when a real estate site is contributed in kind into a joint venture project.
- Tax Support for Foreign-Invested Companies – According to the Tax Exemptions and Exceptions Act, corporate and income tax on business income, dividends income, technology introduction considerations, earned income etc. have been reduced. Acquisition tax, registration tax, tax on business investment, and property tax have been reduced for properties that have been acquired or held.
- Cash grant – For foreign investments that meet certain requirements, the government and the local government shall provide cash grant for funds required to build new factories. To be eligible for this cash grant, the foreign investment ratio must be over 30 per cent and meet specific requirements.

Sources:

“South Korea offers a safe environment for inward construction activity, however low announced spend in the short term reduce its attractiveness relative to other members of the G20.”

Richard Kelly
Partner, Head of Construction

“Very competitive tax rates and a relatively straightforward fiscal system gains South Korea a high overall tax rating.”

Stephen Herring
Tax Partner, Real Estate and Construction