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Five Key Highlights of the Law on Construction 2025

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Law No. 135/2025/QH15 entitled the Law on Construction (the ***Law on Construction 2025***), adopted by the National Assembly on 10 December 2025, came into effect on 1 July 2026, with certain provisions had already been applied from 1 January 2026. The Law on Construction 2025 replaces Law No. 50/2014/QH13 entitled Law on Construction (the ***Law on Construction 2014***) (as amended from time to time). Its enactment is expected to provide a more coherent legal framework for construction investment activities while addressing a number of practical issues that arose during the implementation of the Law on Construction 2014 and its subsequent amendments.

Against the backdrop of Vietnam's ongoing efforts to streamline administrative procedures and accelerate the development of infrastructure, housing and large-scale investment projects, the Law on Construction 2025 introduces a number of significant reforms. These include the simplification of regulatory procedures, greater decentralisation of authority to local authorities, enhanced responsibilities for project owners and improved state management of construction activities. The changes are expected to have a material impact on developers, contractors, consultants and other stakeholders operating in the construction sector.

In this legal update, we highlight several notable changes introduced by the Law on Construction 2025 as compared with the Law on Construction 2014, including those relating to liquidated damages, its scope of application, force majeure and fundamentally changed circumstances.

1. Liquidated damages

1.1. Prior to the enactment of Law on Construction 2025, the legality and enforceability of liquidated damages provisions in construction contracts remained a subject of considerable debate in Vietnam, notwithstanding the fact that such provisions are widely used in international construction practice and are commonly included in standard form contracts such as FIDIC.

1.2. The Law on Construction 2025 expressly recognises, for the first time, the concept of liquidated damages in construction contracts. In particular, Article 86.2 of the Law on Construction 2025 provides that *compensation for damages may be determined based on: (i) actual losses; or (ii) pre-agreed amounts of damages corresponding to the contractual obligations breached and the extent of such breach*." As a result, parties to construction contracts may now incorporate liquidated damages provisions with greater confidence, without the previous uncertainty regarding the enforceability of such provisions under Vietnamese law.

1.3. Nevertheless, disputes may still arise in practice as a result of differing interpretations of contractual provisions and the application of the above rule. Such disputes might be difficult to avoid, particularly in high-value construction projects. However, the express recognition of liquidated damages under the Law on Construction 2025 represents a significant development and reflects the continuing evolution of Vietnamese law in line with commercial practice and international market standards.

2. Methods for resolving construction contract disputes

2.1. The Law on Construction 2014 recognised negotiation, mediation, arbitration and court proceedings as the principal methods for resolving construction contract disputes. However, it did not contain specific provisions applicable to public investment projects or public-private partnership projects, did not expressly recognise dispute resolution mechanisms commonly used in international practice, and did not address the treatment of dispute resolution costs within a project's total investment capital.

2.2. The Law on Construction 2025 addresses these gaps and aligns the legal framework more closely with international construction practice.

(i) Firstly, the Law on Construction 2025 introduces dispute resolution through *"dispute resolution mechanisms in accordance with international practice"*. This provides an important legal basis for the use of mechanisms such as Dispute Adjudication Boards (DABs) and Dispute Review Boards (DRBs) under FIDIC contracts, which are widely adopted in international construction projects and large-scale infrastructure developments.

(ii) Secondly, in relation to public investment projects and public-private partnership projects, the Law on Construction 2025 imposes certain limitations on the use of international dispute resolution mechanisms. In particular, where arbitration is selected, the parties are required to give priority to domestic arbitral institutions. In addition, dispute resolution mechanisms based on international practice may only be adopted where the statutory conditions are satisfied, such as where their use is required by an international treaty, or where approval has been obtained from the investment decision-maker and the relevant mechanism has been agreed in the construction contract.

(iii) Thirdly, the Law on Construction 2025 expressly provides, for the first time, that dispute resolution costs may be included in the total investment capital of a project. This is a significant practical development, as project owners have historically encountered difficulties in accounting for and settling expenses such as arbitration costs, legal fees and other dispute-related costs.

2.3. Overall, the Law on Construction 2025 broadens the range of dispute resolution mechanisms available for construction disputes and brings Vietnamese law closer to international practice. At the same time, it maintains certain safeguards for projects funded by the State budget by prioritising domestic arbitration and imposing conditions on the use of international dispute resolution mechanisms. The recognition of dispute resolution costs as part of a project's total investment capital is also a pragmatic reform, relieving project owners from having to bear such legal costs separately.

3. Scope of application and relationship with other legislation

3.1. The Law on Construction 2014 did not contain a specific provision governing the relationship between itself and other relevant legislation. The only exception was set out in Article 2 of the Law on Construction 2014, which established the principle regarding the application of international treaties, in particular, "*where an international treaty to which the Socialist Republic of Vietnam is a party contains provisions different from those of this Law, the provisions of such international treaty shall prevail*."

3.2. Apart from the provision referred to above, the Law on Construction 2014 did not provide specific guidance on the order of priority for the application of laws in cases where there was an overlap or inconsistency between the Law on Construction 2014 and other general or sector-specific laws, such as the Civil Code, the Law on Bidding, the Law on Public-Private Partnership Investment, the Law on Investment or other relevant legislation.

3.3. In practice, where legal conflicts arose, state authorities, project owners and businesses often had to rely on the principles of legal interpretation and application set out in the Law on Promulgation of Legislative Documents, including the principle that a specialised law prevails over a general law and the principle that a later-enacted law prevails over an earlier-enacted law. However, the application of these principles in the construction sector was not always straightforward, particularly in relation to complex investment projects involving multiple areas of law, such as investment, procurement, land, planning and project contracts.

3.4. For the first time, the Law on Construction 2025 introduces a dedicated provision to clearly establish the principles and order of priority for the application of laws in the construction sector. In particular, Article 4 of the Law on Construction 2025 provides that:

(i) Construction activities carried out within the territory of Vietnam shall be governed by the Law on Construction.

(ii) To the extent that matters relating to construction contracts are not specifically provided for under the Law on Construction, the provisions on contracts under the Law on Bidding, the Law on Public-Private Partnership Investment and the Civil Code shall apply.

(iii) Where the Law on Construction contains provisions that differ from those of the Law on Investment in relation to construction investment projects implemented under the special investment procedures, the Law on Investment shall prevail.

(iv) Where the Law on Construction contains provisions that differ from those of the Law on Railways in relation to national railway lines or local railway lines, the Law on Railways shall prevail.

(v) Where a law or resolution of the National Assembly enacted after the Law on Construction intends to provide otherwise in respect of construction activities, it must expressly specify the provisions that are to be implemented other than in accordance with, or are not subject to, the Law on Construction.

3.5. It can be seen that, rather than leaving the determination of the applicable legal hierarchy entirely to general principles of statutory interpretation, the Law on Construction 2025 proactively establishes cross-references and delineates the respective scope of application of related legislation within the statute itself. This represents a notable development in legislative drafting techniques and in the approach to addressing conflicts between laws.

3.6. Of particular note is the regulation of the Law on Construction 2025 to defer to the Law on Investment in relation to construction investment projects implemented under the special investment procedures. This reflects a policy direction towards greater flexibility and continued investment reform. Likewise, the priority given to the Law on Railways in respect of national and local railway projects demonstrates an intention to establish a dedicated legal framework for strategic transport infrastructure, particularly as Vietnam will advance a number of large-scale railway projects in the coming years.

3.7. In addition, the requirement that laws or resolutions enacted after the Law on Construction 2025 must expressly specify the extent to which the Law on Construction applies, or does not apply, represents a further positive development in legislative drafting. This mechanism is expected to reduce inconsistencies, overlaps and latent conflicts between legal instruments, thereby enhancing the transparency, predictability and stability of the legal framework governing construction activities.

4. Force majeure and fundamentally changed circumstances

4.1. The Law on Construction 2014 did not contain a dedicated provision defining or specifying what constitutes a "force majeure event" or "fundamentally changed circumstances" in the context of construction activities. These concepts appeared only sporadically in provisions relating to the adjustment of construction contracts, project schedules or construction investment projects, without comprehensive guidance on their scope of application or the criteria for determining their existence.

4.2. In practice, where events significantly affecting project implementation arose, such as strikes, epidemics, geological changes, changes in government policy or the discovery of archaeological remains during construction, parties to construction contracts often had to rely on the general provisions of the Civil Code to determine whether such events constituted force majeure events or fundamentally changed circumstances.

4.3. However, as the Civil Code sets out only broad principles applicable to all civil and commercial relationships, its application to the construction sector, with its particular characteristics, has often resulted in differing interpretations. A considerable number of disputes have arisen where one party sought to characterise an event as force majeure in order to obtain relief from liability or an extension of time, while the other party disputed that characterisation.

4.4. To address this gap in the Law on Construction 2014, the Law on Construction 2025 introduces, for the first time, specific provisions identifying the circumstances that may constitute force majeure events and fundamentally changed circumstances in construction activities.

4.5. Pursuant to Article 13.1 of the Law on Construction 2025, force majeure events in construction activities include:

(i) natural disasters and environmental disasters;

(ii) fires and epidemics;

(iii) states of emergency relating to national security, public order and safety, and national defence;

(iv) strikes, work stoppages, embargoes and blockades;

(v) activities relating to the discovery of antiquities and archaeological remains; and

(vi) other circumstances as provided by relevant laws.

4.6. Article 13.2 of the Law on Construction 2025 provides that fundamentally changed circumstances in construction activities include:

(i) changes in State policies or laws;

(ii) unforeseen abnormal geological conditions; and

(iii) other circumstances as provided by relevant laws.

4.7. The Law on Construction 2025 further clarifies that, for the purpose of determining whether an event falls within the categories set out in Article 13.1 or Article 13.2, the relevant conditions under the Civil Code relating to force majeure events and the performance of contracts under fundamentally changed circumstances must also be satisfied. In other words, the mere fact that an event falls within one of the listed categories does not automatically mean that it will be recognised as a force majeure event or fundamentally changed circumstances. The requirements relating to objectivity, unforeseeability and unavoidability under the Civil Code must still be assessed on a case-by-case basis.

4.8. The introduction, for the first time, of specific statutory guidance on force majeure events and fundamentally changed circumstances represents a significant step towards improving risk allocation mechanisms in the construction sector. Rather than relying solely on the broad principles contained in the Civil Code, project owners, contractors and dispute resolution bodies now have a clearer sector-specific legal framework for assessing and addressing issues arising during project implementation. This is particularly important for large-scale and long-term construction projects, such as infrastructure, energy and transport projects, which are especially susceptible to external factors.

4.9. The new provisions are also expected to facilitate the application of contractual mechanisms relating to extensions of time, contract price adjustments, suspension of works and termination of construction contracts. For example, the discovery of antiquities or archaeological remains during construction, which has historically been a contentious issue in practice, is now expressly recognised as a circumstance that may constitute a force majeure event in construction activities. Likewise, changes in government policy and unforeseen abnormal geological conditions are now expressly recognised as examples of fundamentally changed circumstances.

4.10. Notably, pursuant to Article 95.7 of the Law on Construction 2025, where a force majeure event or fundamentally changed circumstances arise under construction contracts entered into before 1 July 2026, being the effective date of the Law on Construction 2025, the relevant provisions of the Law on Construction 2025 may nevertheless be applied. Accordingly, contracts executed prior to the effective date may benefit from the clearer and more comprehensive legal framework introduced by the Law on Construction 2025 without requiring the parties to amend the contracts in their entirety.

5. Rights, obligations and responsibilities of investment decision-makers and project owners in the preparation and management of construction investment projects

5.1. Investment decision-makers

(i) Compared with the Law on Construction 2014, the Law on Construction 2025 significantly expands the powers of investment decision-makers, reflecting a greater emphasis on flexibility and decentralisation in project management.

(ii) In addition to the fundamental powers already recognised under the Law on Construction 2014, such as approving projects and approving the final settlement of construction investment capital, the Law on Construction 2025 introduces the power to delegate or authorise project approval. It also introduces the power to determine, or delegate or authorise the determination of, the type of construction design to be included in the feasibility study report. This represents an important development, providing a clearer legal basis for the decentralisation of construction investment management.

(iii) The Law on Construction 2025 also replaces the power to "suspend" a project under the Law on Construction 2014 with the power to "temporarily suspend" or "cancel" the implementation of a project, provided that such action is taken in accordance with applicable laws. In addition, the Law on Construction 2025 expressly recognises the authority to amend or adjust construction investment projects where necessary in accordance with its provisions.

(iv) The Law on Construction 2025 retains the core responsibilities of investment decision-makers, including organising project appraisal, making construction investment decisions, ensuring the availability of funding and supervising project implementation by project owners. Notably, however, the Law on Construction 2025 places greater emphasis on the overall responsibility of investment decision-makers for matters arising throughout the implementation, completion, capital settlement and operational phases of a project. Compared with the Law on Construction 2014, this reflects a clear policy shift towards strengthening the substantive accountability of investment decision-makers throughout the entire project lifecycle.

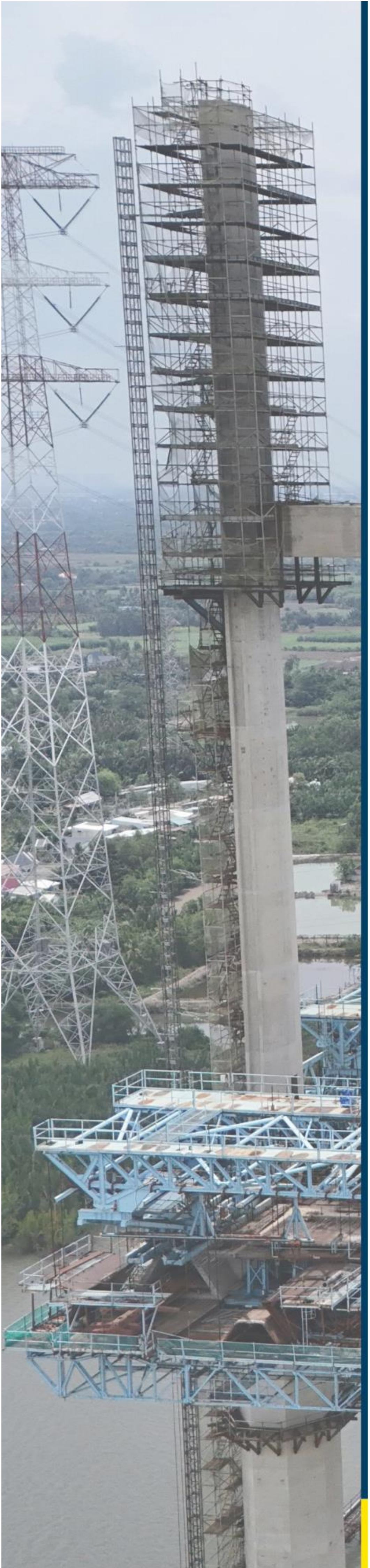
5.2. Project owners

(i) The Law on Construction 2025 streamlines and restructures the rights of project owners, placing greater emphasis on professional and project management functions. In particular, the Law on Construction 2025 expressly recognises the rights of project owners to prepare construction investment projects, undertake construction design and surveys, and conduct design verification in accordance with the Law; select contractors and enter into construction contracts with them; and organise and manage project implementation.

(ii) Unlike the Law on Construction 2014, the Law on Construction 2025 no longer separately provides for the right to request information and documents from competent authorities or organisations, nor does it expressly provide for the right to establish or dissolve project management boards. Instead, the Law on Construction 2025 focuses on granting project owners greater autonomy in organising and managing project implementation.

(iii) The Law on Construction 2025 shifts the focus from procedural obligations to the substantive responsibilities of project owners during project implementation. The Law on Construction 2025 sets out more specific responsibilities relating to the selection of suitably qualified and experienced contractors; the determination of requirements for construction surveys, design and design verification; and the organisation of acceptance procedures and project record management. It also expressly introduces obligations to perform construction contracts in accordance with their terms and to compensate for losses arising from contractual breaches.

(iv) In addition, the Law on Construction 2025 emphasises the responsibilities of project owners to monitor and supervise project implementation and to be accountable before the law and the investment decision-maker for the results of the work performed by them. This approach reflects a broader policy shift towards strengthening the practical management responsibilities of project owners, rather than focusing primarily on administrative obligations as under the previous regime.



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