

South Korea Strives to Enter Global Islamic Finance and Halal Market

South Korea is a rising sun on the Islamic finance horizon.

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FAAIF CEO Camille Paldi participates in WIEF Roundtable in Pyeongchang, South Korea. Paldi says that South Korea has taken many steps towards entering the global Islamic finance market including tabling legislation, engaging in training seminars and hosting conferences, as well as joining various Islamic financial regulatory bodies, preparing for sukuk issuance,



and tapping into the London Murabahah Exchange. South Korea, which is one of the major exporters to Islamic nations, has explored the Halal market and Islamic finance may be the natural progression to diversify its investments, assets, and markets and stimulate the Korean economy, keeping the nation competitive. Seoul is not only preparing to enter the Islamic financial market, however, strives to become a hub of Islamic finance in East Asia in competition with Japan, Hong Kong, and Singapore.

Several Korean companies including GS Caltex, Korean Air, Hyundai, Samsung and others are reportedly exploring the possibility of raising funds from the sukuk market. South Korean Chaebols including Lucky Goldstar, Samsung, Korea Shipping and several others have in the past accessed Islamic commodity Murabahah facilities structured through London.

South Korea's Export-Import Bank of Korea already has a bond programme in Malaysia that can issue Islamic bonds, or sukuk, although it has yet to tap the market. One problem for the domestic Korean market is that the amendment to the Special Tax Treatment Control Act (STTCA), which will facilitate sukuk issuance in Korea has not yet been approved. Local supporters of the introduction of Islamic finance products are confident that the delay is a minor setback. The main hurdles are taxation issues relating to double stamp duty, value added tax (VAT), capital gains, and the definition of what constitutes a security. From a conventional point of view, sukuk for instance, may look like asset-backed securities or like investment certificates. There must be a standard guideline that sukuk are considered as securities. Fortunately, these issues have been recognized by the Financial Supervisory Service of Korea and the central bank.

Although Korea is a latecomer to Islamic finance in Asia, Seoul is trying to promote Korea as a future Islamic finance hub similar to Hong Kong, Singapore, and Japan. Kim Jong Chang, Governor of the Financial Supervisory Service of Korea, the financial services regulator, believes that Islamic finance

is a good innovation in the global financial market and has stressed that the Korean government is committed to facilitating it in Korea. Korea believes that the global financial crisis has shown that financial services cannot be divorced from the real economy and sees an ideal fit between its vast industrial base and Islamic finance. Local bankers acknowledge that conventional derivatives, which divorce financial services from the real economy, have historically destabilized the global financial system.

The Bank of Korea is the 59th regulatory body to join the IFSB, bringing total membership to 184, joining the likes of the central banks of Luxembourg and Japan and the monetary authorities of Hong Kong and Singapore. South Korea is definitely a rising sun on the Islamic finance horizon. Camille Paldi can be contacted at camille@faaif.com.

FAAIF Limited is a legal and management consultancy firm servicing clients in Islamic banking, finance, and takaful. FAAIF Events is an events production and management company <http://www.faaif.com>.

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