

06/29/2018

## Decline in Korea's geopolitical risks gives rise to advisory opportunities for accounting, law firms

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## Story

- Pyongyang summit in fall may provide better roadmap
- Frontier market North Korea has great economic potential
- Advisory firms strengthen North Korea services with the mid- to long-term view

South Korea's big four accounting and law firms have seen increasing consulting and advisory opportunities on the back of accelerating talks with North Korea over inter-Korea cooperation and economy opening, Seoul-based advisors told this news service.

South Korean investors across sectors - from infrastructure, food, pharmaceuticals, consumer, logistics to industrial - have begun reviewing their Korean strategy and seeking advices, [this news service](#) reported previously.

Sanctions against North Korea are still in place, but political risks between the two longstanding rivals have subsided following a recent summit among the leaders from Seoul, Pyongyang and Washington, Lee Tae- Ho, Partner at **Samil PwC** said, adding this has triggered corporate interest in the North.

In addition to 'May 24 measures,' South Korean sanctions preventing economic relations with North Korea implemented in 2010, US and UN sanctions against North Korea still remain.

As 'gradual opening' is expected, each sector player is keen to understand "which phase of the opening they belong to, and how to be part of it," said Lee Soo- Hyun, Partner at **Shin & Kim**, a Seoul-based law firm.

Economic ties may start with light consumer or medical supplies and a resumption of tourism ties, which then move on to more serious developments that may involve investment in construction, SOC (social overhead capital) projects - infrastructure, energy, plants and transportation - and financial institutions, the lawyer added.

North Korea's massive USD 7bn worth of natural resources, low-cost quality labour, and geographic location mean great economic potential for investors expanding into Northeast Asia regions, according to Lee Chan- Ho, Foreign attorney at **Bae Kim & Lee** and a former officer of South Korea's Ministry of Unification.

Investors inquiries regarding corporate and foreign investment laws, legislative status, economy, restrictions of sanctions and precedent investment cases have increased, he added.

Interest in the infrastructure and energy sectors is on the rise, said Kim Kwang- Seok, Partner at **Samjong KPMG**'s North Korea Business Center, adding corporate enquires cover operation, financing, regulations and exits options for business with North Korea have also increased.

Nevertheless, despite the huge potential, lack of information and political uncertainties remain as risks for companies seeking an entry to the North and their profitability outlook, Lee at Samil PwC cautioned. Investors should examine the business feasibility very carefully, he said.

"Rigorous due diligence is a must," he said.

### Railroad first

The South Korean government will launch a task force, jointly with North Korea, for a railroad development in July as planned as they need to iron out details of corporate participation, a spokesperson at Seoul's Ministry of Unification told this news service.

It is not decided whether to invite private corporates for projects or not.

The move is a follow up of an earlier announcement on 1 June, dubbed Panmunjeom Declaration, which includes economic development in three areas - railroad, road and woodlands - in North Korea, he said.

The possible development in other sectors would be discussed at the next summit, scheduled for autumn in Pyongyang, the spokesperson added. The project meetings for road and woods were scheduled for 28 June and 4 July, respectively.

The ministry will discuss with other responsible regulators such as the Financial Services Commission, the Ministry of Trade, Industry and Energy, and the Ministry of Finance and

**Other** Bae Kim & Lee  
**Other** Shin & Kim  
**Other** Samjong KPMG Inc  
**Other** Deloitte Anjin  
**Other** PwC South Korea  
**Other** Ernst & Young Han Y

**Sectors** ALL

**SubSectors** ALL

**Intel Type** Cross Border  
 Regulatory issues

**Countries** China  
 France  
 Germany  
 Italy  
 Japan  
 Myanmar  
 North Korea  
 Philippines  
 Russia  
 Singapore  
 South Korea  
 Spain  
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**Intelligence ID** 2664464

Strategy to shape the inter-Korea development plans, he added.

South Korea and Russia signed a memorandum of understanding on 22 June for cooperation in rail transportation and logistics projects. The high-speed railway project, estimated to cost USD 35bn, will stretch from the Korean peninsula to Russia.

#### Foreign investors

In addition to China, which is known to be strongly interested and has already invested in North Korea's resources, investors from the US, EU, Japan and Southeast Asia are eyeing on opportunities in the new market, the advisors said.

The majority of foreign investors are not familiar with the region, given a limited access to the market, said Lee at BKL. Korean corporates and advisory firms' previous experiences would be helpful for them to have better insights, he said.

Foreign investors are currently focusing on the transportation – infrastructure, energy and resource businesses in North Korea, a "frontier market," the Samjong KPMG executive said.

China has invested USD 10bn in Hwang Geum-pyeong Special Economic Zone while Russia is positioned to invest in Rajin port and railroad in North, he continued.

Besides China and Russia, other countries may also try to enter the North when the market opens given the historical trading with China and growth potential of such sectors as automotive, mining and energy.

Yet, the gateway would not be limited to Koreans only, Kim said.

While South Korean investors enjoy cultural and language advantages, they still have to compete with a long line of eager investors from other countries seeking to enter the North, the advisors said.

A pick-up in economic and real estate development of North Korea's neighbouring regions, especially those bordering with China and South Korea, is anticipated in near term, said the Shin & Kim lawyer. A stake investment or joint ventures partnership is possible in the course of SOC development, but how to exit from such investments remains a lingering question.

"There should be a way out to be in," he added.

#### Long but meaningful journey

Infrastructure, regulations and SOC consultations have been traditional practices for advisory firms, but the domestic firms have expanded and added expert colour to advance the service offerings.

Corporates' review in the preliminary stage and North Korea's opening will both take time, with lots of uncertainties to overcome, the BKL lawyer pointed out.

While the advisory firms prepare to serve the clients' needs, it will take time for those services to generate revenues for the firms, the advisors said.

Last week, BKL signed a partnership with the Korea Legislation Research Institute to boost its research ability and inter-activities with North Korea, the lawyer said. BKL, which set up its North Korea unit in 2002, has increased the force to 40 Korean and foreign advisers across corporate, energy, finance, construction, culture & tourism, tax and international relations.

Samil PwC was the first to launch North Korea- focused service among peers. It set up a North Korea team in January 2008. The firm has been engaged in various government programs related to North Korea and Kaesong industrial zone since then, and it also runs inter-Korean chief executive programs designed to increase interactions among domestic corporate executives, sharing information and enhance the understanding of the market, according to the Samil PwC executive.

Samjong KPMG has been assisting **The Export-Import Bank of Korea** in its North Korea projects since it opened the support centre in 2014. The team has 30 professionals for North Korea business centre that looks at accounting, tax, financial advisory and consulting support for corporates with a focus on "seeking business opportunities," Kim said.

Shin & Kim also has broadened the advisers and services covering North Korea in comprehensive regulatory and industry practices including finance, real estate, tax, corporate law and infrastructure to serve the long-term interest of clients, the Lee at Shin & Kim noted.

by Kate Kim, Aram Jeong and SooYoung Park in Seoul

<b>Source</b>	mergermarket
<b>Value</b>	
<b>Stake Value</b>	N/A

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