

“Trial of the century”

Samsung’s legal battle won’t end South Korea’s cycle of corruption

By **David Gilbert** Mar 9, 2017



South Korea’s corrupt system of business and politics is going on trial — again.

On Thursday a court case dubbed “the trial of the century” began, with the heir apparent to the Samsung empire facing charges of bribery and embezzlement. The case is inextricably linked to that of disgraced President Park Geun-hye, whose own future will be decided this week when an eight judge panel decides whether she should be removed from office.

While the trial of Samsung vice chairman Lee Jae-yong will be closely scrutinized by the hundreds of thousands of people who crowded Seoul’s streets late last year to call for the impeachment of their president, experts believe that this is simply history repeating itself.

There may be some short-term impact, including bringing shame on the company and its founding family, but ultimately, business and politics in Korea will continue as normal.

"I think the business will continue as usual because we are talking about the surviving business model in this political and economic environment — so it is very hard to transform any company, including Samsung," Joseph Fan, a professor at the school of accountancy and department of finance at the Chinese University of Hong Kong Business School, said.

Lee is the third generation of his family to lead the company and just like his grandfather and father before him, he is charged with using his wealth to influence government decisions. If history is anything to go by, Lee may not spend very long in jail — even if found guilty.

"We are seeing the same thing happen all over again, and if the pattern continues in this direction, it is very likely that [Lee] will receive a presidential pardon," Geoffrey Cain, the author of a new book on the history of Samsung, said.

All-powerful chaebols

Samsung is the largest of a unique Korean institution, known as a chaebol, a conglomerate of companies infused with Confucian values, family links and government influence. Over the course of its 80 year history, the company has been transformed multiple times to become one of the most recognizable brands on the planet and now includes businesses ranging from ship-building to chemicals and clothing. Samsung Electronics sits as the crown jewel of this empire.

Lee, 48, is facing a range of corruption charges, most notably pledging bribes to a company and organizations linked to a friend of President Park, Choi Soon-sil who is at the center of the corruption scandal which has already led to the indictment of the president.

Lee is accused of making a \$36 million payment in exchange for a favorable decision by the National Pension Service supporting a controversial 2015 merger of two Samsung affiliates — a move which led the way for Lee to assume control of the empire from his father.

Lee Kun-hee is still officially chairman of the company, but he has been in a coma since a heart attack in 2014, and his only son is seen as the de facto leader and heir apparent to the empire.

Alongside Lee are three other Samsung executives also facing corruption charges, including Samsung Group Vice Chairman Choi Gee-sung who Cain describes as the

highest-ranking non-family member of the Samsung empire, “a legend within the company, indispensable.”

Choi took temporary control of the company after Lee Kun-hee's heart attack, and helped guide the younger Lee as he took control of the company.

On Thursday, all defendants entered pleas of not guilty, and Samsung has consistently denied any wrongdoing. The trial is expected to last up to three months.

Samsung's murky past

Lee, who goes by the name Jay Y. Lee in the west, is seen as a modern leader of a very traditional company, one who is as much at home in Silicon Valley as he is in Seoul. He is the third generation of the family to lead the company, and following in tradition, he now becomes the third generation to be charged with corruption.

Lee's grandfather Lee Byung-chull founded Samsung as a trucking company in 1938. He was able to grow the business thanks to close — and corrupt — ties with the authoritarian administration of Syngman Rhee, who was a friend of Lee Byung-chull's father.

Following the overthrow of Rhee's regime by General Park Chung-hee in 1960, the Samsung founder was listed among the businessmen who had bribed the former leader. However Gen. Park was soon convinced to drop the charges against Lee Byung-chull, who was already the richest man in Korea at the time.

His son, Lee Kun-hee, took control of the company in 1987, and less than a decade later he was convicted of bribing politicians and given a two-year jail term. But thanks to the close ties between the government and Samsung, the sentence was overturned and he was pardoned the following year.

In 2008, Lee Kun-hee resigned from Samsung after being indicted and found guilty of embezzlement and tax evasion. The three-year sentence he received was suspended, and instead he paid a fine of around \$90 million. He was once again pardoned and returned to Samsung as chairman in 2010.

That same year, an explosive book entitled Think Samsung, written by former chief legal counsel Kim Yong-chul, was published, claiming Lee Kun-hee stole about \$10 billion from Samsung subsidiaries, destroyed evidence, and bribed government officials to ensure the smooth transfer of power to his son.

Another family member, Lee Jay-hyun, a cousin of Lee Jae-yong and head of the CJ Group — which was spun off from Samsung in the 1990s — was pardoned by President Park after being convicted of embezzlement and tax evasion in 2014.

“Cultivating tycoons”

The reason the family has been able to continue to operate with apparent impunity is the unique relationship between government and big business in Korea. The importance of Samsung to the Korea can be seen when you consider that in 2012 it represented 20 percent the country's \$1.1 trillion economy.

“The government has a long history of pushing the Korean economy by cultivating these tycoons,” Fan said.

These powerful chaebols — which also include LG and Hyundai — are not held to the same standard as businesses in western countries, and in Korean society those running the conglomerates are seen almost as deities.

“This is something that north and south Korea have in common, it's a shared heritage. The family dynasty that runs a regime or company, they are treated as gods and they untouchable,” Cain said.

The fact Lee is currently incarcerated at the Seoul Detention Centre — which also houses Yoo Young-chul, a self-confessed cannibal on death row — is a source of great shame for him and his family.

And yet, Lee retains full control over the business. He has not been replaced and while he doesn't have access to a phone or laptop, he communicates with his lieutenants through his lawyers.

Business as usual

For the day-to-day operations of the company, nothing has changed. The 300,000 employees who work for Samsung's dozens of affiliates go about their business as usual, but that doesn't mean there is no impact on the company's fortunes.

Lee spends most of his time travelling the world, securing deals with some of the world's biggest companies. Such is his stature within the technology world, Lee was the only Korean executive invited to Steve Jobs funeral in 2011 — despite the ongoing patent dispute between Apple and Samsung at the time.

While Samsung is best known as the maker of smartphones and TVs, the company also has a huge component business where it sells batteries, processor chips, memory chips and screens to electronics manufacturers across the globe. Samsung is reported to be supplying the OLED panels which are expected to be used in Apple's next iPhone, due for launch later this year.

Lee is key to signing these deals, and with him behind bars for at least the next three months, that will have a significant impact on Samsung's ability to do business.

But even if Lee is convicted, past history tells us that he may not be there for that long. "What's happening now is this pattern that goes back decades," Cain said.

But, this time around, could it be different?

The huge protests which brought down President Park and led to her indictment suggest there is an appetite for change within Korean culture, where government and big business are seen almost as a single entity.

Not according to Fan. "The government and business relationships will continue to be close, and there will always be corrupt bureaucrats to collude with the business sector."

Samsung has sought to make some changes to the way it does business — on the surface at least. It has shut down its corporate strategy office, a mysterious group, which functioned behind closed doors and where most of Samsung's most important decisions were taken. It's closure is seen as a sign that Samsung could be ready to reform its complex and integrate corporate structure — something shareholders have been calling for for some time — but again, we have heard this all before.

The office, which was established almost 60 years ago as a secretary's office for the Samsung founder, was previously dismantled in 2008 following the corruption scandal, but just like Lee's father, it resurfaced in 2010. According to Kim's book, it was from this office that executives administered a \$200 million slush fund for bribing officials

In Korea, the trial is front page news for now, but just like previous scandals, once the court case is over, the controversy will likely be brushed under the carpet. In six months or a year from now, newspaper reports won't even mention it when talking about Lee — just as they whitewash biographies of the rest of Samsung family.

"If you read reports about the chairman from about 2010 to about 2015, it really is just praise and they don't take him to task that he is a two-time convicted criminal — and that's going to happen again with Jay Lee I think," Cain said.

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