

Samsung heir's corruption retrial hangs over phonemaker

October 23 2019, by Sunghee Hwang



Samsung Group heir Lee Jae-yong arrives at Seoul Central District Court in handcuffs during his trial in 2017

The heir to the Samsung empire returns to court this week for a retrial over a sprawling corruption scandal that could see him return to prison

and deprive the world's largest smartphone and chip manufacturer of its top decision-maker.

Lee Jae-yong is vice chairman of Samsung Electronics—where profits have been falling for months—and was jailed for five years in 2017 for bribery, embezzlement and other offences in connection with the scandal that brought down South Korean president Park Geun-hye.

The 51-year-old was freed a year later after an appeals court dismissed most of his bribery convictions, but that decision was set aside by the Supreme Court in August, which ordered a retrial.

The new proceedings begin Friday and are likely to last for months.

At the same time, Samsung Electronics is battling challenges from the US-China trade war and tough export restrictions imposed by Tokyo on key supplies amid a dispute with Seoul over wartime history.

While the firm's daily business is managed by a board of directors, a leadership vacuum would greatly hamper its ability to make major decisions, KB Securities said in a report.

The retrial added to uncertainty for the company, said a source with direct knowledge, adding: "There are things that only Lee Jae-yong can do."



A South Korean flag flies alongside a Samsung one outside the company's headquarters in Seoul

Samsung Electronics is the flagship subsidiary of the Samsung group, by far the biggest of the family-controlled conglomerates, or chaebols, that dominate business in the world's 11th-largest economy.

Its overall turnover is equivalent to a fifth of the national gross domestic product and it is crucial to South Korea's economic health.

"It's a huge burden for Samsung Electronics and will have negative ripple effects on the Korean economy," said Kim Dae-jong, a business professor at Sejong University.

The phone maker has flagged a profit drop of more than 50 percent in the third quarter—its fourth consecutive earnings fall—faced with a long-running slump in the global chip market.

It has also had to contend with glitches with its top smartphones, delaying the release of the Galaxy Fold and warning users of other devices about a fingerprint identification vulnerability.



The Samsung scandal brought down South Korean president Park Geun-hye in 2018

Moon meetings

The trials of Lee and Park highlighted shady links between big business and politics in South Korea, with the ousted president and her close friend, Choi Soon-sil, accused of taking bribes from corporate bigwigs in exchange for preferential treatment.

Lee's case centred on millions of dollars his group paid Choi, allegedly for government favours such as ensuring a smooth transition for him to succeed his ailing father.

He has effectively been at the helm of the sprawling Samsung group since his father and group chairman Lee Kun-hee was left bedridden by a heart attack in 2014.

In July he flew to Japan in a high-profile trip to secure chip materials following Tokyo's restrictions, and this month he announced a plan to invest more than 13 trillion won (\$11 billion) in developing next-generation displays.

South Korean President Moon Jae-in stood next to Lee as he made the announcement at a Samsung plant in Asan, south of Seoul—their ninth official meeting since the Samsung heir was freed.



Choi Soon-Sil, the jailed confidante of disgraced South Korean president Park Geun-Hye, during her 2017 trial

Moon—who took office after a sweeping election victory with promises of weeding out deep-rooted, corrupt ties between chaebols and regulators—has increasingly been warming to the country's largest conglomerates.

"I thank Samsung for... leading the South Korean economy," Moon said. "I thank Vice Chairman Lee Jae-yong for delivering such good news to the people."

South Korea is seeing growth at around two percent and, like his predecessors, Moon was looking to Samsung to prop up the economy

through his recurring meetings, said Professor Kim.

Noh Dong-ill, a law professor at Korea University, said the judiciary tended to have a "fixed-rate system" for verdicts against chaebol leaders, giving them lighter punishments citing their "contribution to national economy".

Both Lee's father and grandfather—Samsung founder Lee Byung-chull—had brushes with the law themselves, but never served time behind bars.

"The judges could reach a similar ruling this time," Noh said.

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