

Korea targets corruption at automaker Hyundai

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SEOUL, SOUTH KOREA - A massive financial scandal surrounding one of South Korea's most powerful tycoons has exposed the machinations by which they perpetuate their power - but appears unlikely to undermine the family-run conglomerates that dominate the economy.

As Chung Mong Koo, chairman of the Hyundai Automotive Group, was indicted Tuesday on charges of establishing an enormous slush fund to bribe officials, and then of embezzling funds to beef up his son's shares, corporate loyalists and critics debated the implications for the conglomerates, known as chaebol.

Inside Hyundai's corporate headquarters, executives view with alarm what they see as a campaign to destroy the family ownership of the empires that some see as the bedrock of Korea's economic success.

Outside the corporate structure, critics see pressure against dynastic rule over the chaebol as long overdue. "There is no reason why we should automatically accept the son as the next generation leader," says Jang Ha Sung, dean of business at Korea University. The system of hierarchical, family control "just because he's the son is outrageously ridiculous."

The government says it is simply going after what it considers egregious corruption as well as the increasing grip of the chaebol.

A Hyundai manager, talking in a nearby coffee shop, said he hoped that Hyundai's critics would "recognize the accomplishments" of Mr. Chung as he remains in jail pending the outcome of a request for bail. He faces trial on charges of setting up a \$127 million bribes fund and diverting more than \$300 million from his companies to enrich the holdings of his only son, Chung Eui Son. The son already is well on his way to control over the group, serving as president of Kia Motors, the subsidiary that Hyundai Automotive acquired in 1998 at the height of the 1997-1998 economic crisis.

Prosecutors, says the manager, have picked Hyundai Automotive as the latest target in an ongoing campaign to undermine the power of the mighty chaebol that rose from the ashes of the Korean War. The manager defends his boss for having vastly increased the scope and size of Hyundai Automotive since tearing it away from a cousin in a family feud seven years ago.

Nonetheless, prosecutors say they will also indict the younger Mr. Chung and other Hyundai executives in coming days.

They also have been interrogating government officials, one of whom, a former director in Seoul City Hall, committed suicide Monday after having been questioned about favors bestowed in a deal to expand the Hyundai headquarters at bargain costs. And last week, the chairman of the government's National Agricultural Cooperative Federation was jailed after being accused of accepting bribes for the project.

At the heart of the case, say prosecutors, lies Chung's desire to insure his son's inheritance of power.

"No one is talking about the failure of the chaebol," says Mr. Jang, of Korea University. "It's not an issue of dismantling the chaebol system." But, he adds, "There has to be a balance between the role the chaebol can play and that of small-and-medium enterprise" - companies play a role in the supply chain on which manufacturers such as Hyundai Automotive rely for parts.

Indeed, the chaebol, with tentacles extending into every key industrial sector and immediate ownership of more than half the country's business assets, may well escape the crisis relatively unscathed.

The pattern is familiar to analysts who have seen chaebol investigations under every president since Park Chung Hee, the dictator whose allocation of entire spheres of business to one tycoon or another helped the system to grow. Mr. Park, assassinated in 1979, is often credited with leading the rise of the chaebol system.

"They would like to squeeze the chaebol," says Park Nei Hei, a former dean at Sogang University and consultant for Boston Consulting Group. "They'll go after this slush fund at Hyundai Automotive. Then, after a period, they'll let them off."

To Mr. Park, who sits on the board of the Samsung Corp., the trading and construction arm of the Samsung Group, the biggest chaebol, the logic is simple. "They have no choice," he says. "They cannot do anything to the chaebol. They make a fuss. After a while, it's all forgotten."

In the meantime, Hyundai Automotive has had to suspend plans to begin construction of plants in Czechoslovakia and Georgia, while the company, as one executive put it in an interview in the Korea Herald, sails on "like a ship without a rudder."

Hyundai refuses comment other than to express the hope that Chung returns soon "so we can complete these deals."

Rival manufacturers hope the case, at minimum, will deprive Hyundai Automotive of some of the connections that make it difficult for others to compete effectively. "A level playing field is very important for us," says Nick Reilly, chairman of GM Daewoo, acquired by General Motors in 1999. Mr. Reilly doubts, though, if Chung's absence "will have a huge effect."

Indeed, the group's sales this year are forecast to rocket past \$100 billion, nearly five times as much as five years ago, while total assets now are just above \$60 billion.

Hyundai Automotive and Samsung have come up with "solutions" that they hope will help appease prosecutors. Samsung's chief, Lee Kun Hee, who inherited control from his late father, was accused of manipulating shares through the group's main holding company to guarantee the position of his only son, a managing director at Samsung Electronics.

So far, two Samsung executives have gone to jail. Mr. Lee, though not the immediate target, offered more than \$800 million as Samsung's "contribution to society," more than half in scholarship funds. Hyundai Automotive executives, bowing apologetically for the benefit of TV cameras, have promised more than \$1 billion, also a "contribution to society."

Mr. Park at Boston Consulting says such responses may help relieve pressure on the chaebol without bringing about real change in the power structure or the system. President Roh Moo Hyun, he notes, said early this year that the chaebol should be more attentive to social welfare. "The atmosphere in this society is turning in that direction," says Mr. Park. "They're not killing the chaebol, but they want them to pay more attention to the people."

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