South Korea’s Seongnamgate

The scandal over alleged corruption related to land development in the satellite city of Seoul, Seongnam, is gaining momentum: its main protagonist is Lee Jae-myung, now the leading presidential candidate of the ruling Democratic Party, who initiated the project when he was mayor of Seongnam.

The Gist of the Story

- Hwacheon Daeyu, a small company with a combined capital of 350 million won, was appointed the preferred bidder and then received a whopping 404 billion won in dividends, whereas the city received only 182.2 billion.
- Hwacheon Daeyu owner Kim Man-bae, a former journalist, interviewed Lee, who was then mayor of Seongnam, in 2014 ahead of the project. During the interview, the mayor expressed his ambition to become governor and president.
- During the 2020 general election, Hwacheon Daeyu spent more than 400 million won for entertainment purposes even though it has only 10 employees.
- Former Supreme Court Justice Kwon Sun-il was an advisor to the company and “pocketed 15 million won monthly for 10 months in consulting fees even without registering as a lawyer,” without even registering as a lawyer. And it was Kwon who, on July 16, 2020, acquitted Lee Jae-myung on charges of election law violations that could have cost him the governorship and his political career, and when retiring two months later, immediately took over such a bountiful position. It was determined that between July 2019 and August 2020, Kim Man Bae visited Kwon’s office eight times as a reporter, raising suspicions that Kim may have been lobbying for Lee.
- In fact, there was a whole group of well-known and high-profile lawyers whom Kim Man-bae invited as “brothers,”
but why would a small developer recruit such a powerful group of lawyers as advisors and counsels?

- The daughter of former special prosecutor Park Yong-soo, who worked at the company investigating ex-President Park Geun-hye’s corruption case, was allegedly given a special favor that allowed her to purchase an apartment owned by the company for 700 million, although its price now is more than 1.5 billion won.
- However, Conservatives were also hurt. The son of Deputy Kwak Sang-do (who was the senior presidential secretary for civil affairs at the time of Park Geun-hye’s presidency) received a huge severance pay of 5 billion won after about seven years at Hwacheon Daeyu. Such an amount, more than 200 times his legal pension payment, is excessive because he worked at the company as an ordinary employee, receiving only 2.5 million (according to other reports, 3.8 million, which is still little) won, thus likely making it a bribe case. Kwak, though, claims he has had health problems since 2018 and the company has compensated him.

How is the Investigation Going?

On October 1, Yoo Dong-gyu, former acting president of the Seongnam Development Corp. (SDC), was detained. The relationship between Yoo and Lee goes back to 2008, when Yoo was the manager of an apartment renovation project in the city and Lee was an attorney. Yoo is suspected of playing a key role in devising the composition of shareholders and the method of distributing profits in such a way that it brought the city hundreds of billions of won in losses, but Hwacheon Daeyu received the aforementioned dividends. For this, Yoo Dong-gyu received 1.1 billion won in kickbacks from it, but a theory is being developed that it was Yoo who owned Cheonhwa Dongin No. 1, one of the company’s subsidiaries, and was promised 70 billion won in dividends as a reward for his profit-sharing scheme.

According to sources at the Prosecutor’s Office, accountant Jeong Yong-hak submitted 19 recordings of conversations between Yoo and Kim Man-bae, owner of the entire Hwacheon Daeyu, as well as dialogues between Hwacheon Daeyu shareholders and SDC officials, including Yoo, over the past two years. These records allegedly detail a demand for a portion of the dividend from Yoo and a discussion of potentially illegal cash payments of 8 billion won from company funds. In addition, records show a certain “this person” who owns 50% of Cheonhwa Dongin No. 1, one of the company’s asset affiliates, which has made more than 120 billion won in profits. Conservatives suggest, based on the respectful treatment of the participants in the conversation, that this figure is clearly above Yoo and Kim’s rank – which means it’s most likely Governor Lee Jae-myung.

On October 11, Kim Man-bae appeared before prosecutors for questioning, denying all the charges. When asked who the real owner of Cheonhwa Dongin No. 1 was, Kim stated that it was him, not Governor Lee. Kim attributed all the “confusion” to accountant Jeong Yong-hak, who allegedly “intentionally edited the transcript of conversations among stakeholders about how to distribute the profits.”

Prosecutors demanded the arrest of Kim Man-bae, believing that Kim caused about 110 billion won in losses to the city by colluding with Yoo Dong-gyu and designing the contract to remove a clause limiting the amount of profit his company can make from the project. However, on October 14, the Seoul court rejected Kim Man-bae’s arrest warrant, citing insufficient explanation of the need for his detention.

There is no direct evidence against Lee Jae-myung yet, the author believes. But according to the prosecution’s version, there was a “tacit agreement or even tacit approval” of Yoo Dong-gyu’s actions, a feat of legal thinking by the “munists” who do not bother to look for evidence. Also, the investigation has “reasonable suspicion” that Yoo Dong-gyu could not have been the sole decision-maker and that Governor Lee, knew how the project was carried out.

Conservatives accuse Lee Jae-myung of running the whole scheme and demand that he step down as a presidential candidate. Representatives of the Democratic candidates who lost the primary to Governor Lee are speculating about the collapse of the ruling party if Lee was really behind the scheme, and are speculating about the possibility of his arrest (which would allow them to enter the race again).

At first, Lee Jae-myung firmly dismissed all accusations as “fake news,” including his relationship with Yoo Dong-gyu. However, Yoo Dong-gyu was then arrested, and on October 5, Lee expressed regret over the scandal, but clearly denied his involvement. But a scandal is not something a governor should apologize for – the good news in Korean politics is that an apology, unlike a regret, means an admission of guilt.

On October 18, Lee Jae-myung said he felt betrayed by the former aide and others involved in the massive corruption scandal and apologized for “appointing the wrong people.” Lee expressed regret that he could not return 100 percent of the profits from the project to the Seongnam Municipal Government, but accused the opposition of being the ones who stole the profits. Sounds like a stretch to the author.
What about the Blue House?

On October 5, a senior presidential administration official said that the Blue House was closely examining the circumstances surrounding the Seongnam corruption scandal. The phrase was taken by all as a routine statement with nothing behind it, but on October 12, Moon Jae-in ordered a thorough investigation.

Conservatives, however, still believe that the investigation is slow, and the National Assembly, which has just begun its annual inspection of the government and state institutions, has become the site of pickets and posters staged by People’s Power representatives demanding that the case be referred to the special prosecutor – as in the case of Park Geun-hye. As a result, many of the audit sessions had to be suspended.

Since it is already known that Attorney General Kim Oh-soo worked as a legal advisor for the Seongnam Municipal Government for five months before taking over as chief prosecutor, critics are demanding that Kim recuse himself from the case. Their claim sounds reasonable. According to polls cited by Joongang Ilbo, 63.9 % of respondents wanted the case to be investigated by an independent inquiry, but there is little chance of a special prosecutor being appointed by parliament, given that the ruling party has 168 seats in the 300-seat parliament against 103 for the conservatives. Then, it will take time to form a team, and the investigation will take 120 days. This means that the result will be announced almost after the presidential election on March 9.

The president’s position also matters. “His call for a thorough probe by the prosecution and police means a public declaration of rejecting a special counsel probe”. And Democratic Rep. Ko Min-jung of the DPK who had previously been a presidential spokesperson, said in a radio interview that she understood that Moon drew the line at the request of a special counsel probe to avoid political strife in the lead-up to the presidential election.

In fact, the Blue House is in a rather difficult position. One the one hand, Lee Jae-myung is a longtime adversary of Moon’s, who has a lot to remember him by. On the other, if you take him out of the game, it will hit the whole camp – the winner of the primaries turned out to be corrupt! The Democrats start from the beginning, the conservatives get a strong chance to win, and both Yoon Seok-yeol and Hong Joon-pyo will try to get even with the incumbent president. In this context, a deal like “I don’t touch you now, and you don’t touch me later” is possible. Rumors that Lee “asked for a meeting with Moon on October 12, and both sides will discuss the request” work for this version. Nevertheless, the president and the governor have yet to agree, and the investigation should not raise unassailable arguments that even service justice cannot ignore.

Will evidence be found? Will Governor Lee be able to stay in the saddle? Are new corruption scandals waiting for us in one camp or another? Find out in the next episode of our fascinating series “South Korea’s domestic politics”!

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