4-1-1996

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Recommended Citation
Available at: http://digitalcommons.lmu.edu/lr/vol29/iss3/10
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DIFFERENCES BETWEEN THE COMMERCIAL
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AND KOREA

Jae Yeol Kwon*

I. INTRODUCTION

History demonstrates that cross-fertilization has promoted significant advances in law.¹ In the course of the past decades, communication and mutual understanding between the United States and Korea² have significantly improved. Despite the fact that legal systems are intensely nationalistic, the particular experience of U.S. laws and courts has been valuable to the development of Korean law in general.³

This observation, however, does not necessarily apply to commercial law.⁴ There exist many fundamental differences between commercial law in the United States and Korea. The means by which the commercial codes of the United States and Korea arrive at solutions to the same problems and face controversies over the same

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* Senior Researcher, Institute of Legal Studies, Yonsei University, Seoul, Korea. LL.B. 1988, LL.M. 1990, Yonsei University; LL.M. 1991, School of Law (Boalt Hall), University of California at Berkeley; S.J.D. 1995, Georgetown University Law Center.


2. The official name of Korea is the "Republic of Korea." An informal designation of 'Korea' is adopted here for easier reading.

3. Successes and failures in U.S. law have been monitored by Koreans and some rules, which proved to be viable, have won wide acceptance in Korea. See Alan Watson, COMPARATIVE LAW AND LEGAL CHANGE, 37 CAMBRIDGE L.J. 313, 321 (1978) (arguing that transplantation of law is the most common form of legal change).

A simple demonstration of U.S. influence is the fact that the theoretical legal framework for the Korean system of corporate governance is based on the traditional U.S. model of corporate democracy.

4. The term "commercial law" is used in this Essay to be conceptually and statutorily separated from corporate law. Commercial law concerns are therefore limited to the subject matters covered by the Uniform Commercial Code (UCC).
subjects are not always identical, nor do the solutions work for the same purpose. This phenomenon is explained by noting that the solutions are largely derived from different historical sources and influenced by different philosophical and legal thinking.\(^5\) As reflected in Justice Holmes's most memorable aphorism—that the life of the law is not logic but experience\(^6\)—these different solutions imply that an organic law grows with the society which, in turn, generates and defines itself through that law.

By the same token, no simple and mechanical verbal formula can capture the distinctions between commercial law in the United States and Korea. The comparative study of law must be done "in the light of [the law's] political, social or economic purpose, and regard must be paid to [its] dynamic rather than to [its] static or doctrinal aspects."\(^7\) Lack of consideration of such external influences as political, economic, and cultural traditions within a nation prevents a full and sophisticated insight into a society's laws.

This Essay is composed of four parts. Part II reveals, through a cursory examination, three major differences between the United States and Korean commercial legal systems. In Part III the question of why the commercial codes of the United States and Korea have evolved in isolation from each other is briefly examined in the context of the historical environment in which Korean commercial law developed. Part IV contains a brief conclusion.

\(^5\) It should be the premise of the comparative study of law that "each national law is a tapestry woven from a rich background of historical and cultural threads." Christopher Osakwe, Book Review, 62 TUL. L. REV. 1507, 1508 (1988) (reviewing K. ZWEIGERT & H. KÖTZ, AN INTRODUCTION TO COMPARATIVE LAW (Tony Weir trans., 2d ed. 1987)); see also JOHN H. MERRYMAN, THE CIVIL LAW TRADITION: AN INTRODUCTION TO THE LEGAL SYSTEMS OF WESTERN EUROPE AND LATIN AMERICA 149 (2d ed. 1985) (commenting that "historical events and currents of thought . . . give form and meaning to the legal rules, institutions, and processes that make up [legal] systems").


\(^7\) H.C. GUTrERIDGE, COMPARATIVE LAW: AN INTRODUCTION TO THE COMPARATIVE METHOD OF LEGAL STUDY & RESEARCH 174 (2d ed. 1949).
II. THE KOREAN COMMERCIAL CODE IN STRUCTURAL PERSPECTIVE

A. The Definition and Subject Matter of the Korean Commercial Code


The Korean Commercial Code consists of five books, with 874 articles of varying length. Book I is the general part of the Code, having seven chapters. The second chapter of this Book includes the rules concerning traders. The third chapter provides the law of trade employees. The fourth and fifth chapters govern trade names and accounting records respectively. Chapter VI applies to commercial

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8. Law No. 1000, Jan. 20, 1962, as amended (Korea). Korean commercial law, a primary source for governing commercial activities, is generally defined as the Commercial Code and its various supplementary laws and provisions. Commercial customs are also included within the purview of Korean commercial law in a broad sense.

9. The UCC covers the sale and lease of goods, negotiable instruments, bank deposits and collections, funds transfers, letters of credit, bulk sales, warehouse receipts, bills of lading and other documents of title, investment securities, and secured transactions.


11. The term “Korean Commercial Code” is used in this Essay where the Commercial Code should be clearly distinguished from the UCC or other foreign commercial legislations.


13. Every Korean code has books, each devoted to a different subject matter. Books are divided into chapters and then into articles.
registration. The final chapter of the Book has rules for the transfer of business.

Book II contains the rules governing commercial transactions. The ten chapters that make up this Book have rules regarding sales, mutual accounts, commercial agents, brokerages, commission agencies, forwarding agencies, carriage, public entertainment business, and warehousing. Most Korean corporate law is embodied in Book III, which makes up more than one half of the Korean Commercial Code. The remaining two books deal with insurance and maritime commerce respectively.

Negotiable instruments are independent from the Korean Commercial Code and are thus governed by separate statutes in the Bills Act and the Checks Act, as a result of the implied adoption of the Conventions Providing a Uniform Law on Bills of Exchange and Promissory Notes and a Uniform Law on Cheques for which the international conferences met at Geneva. Differences between the UCC and the Geneva Uniform Laws are in large part the very differences between the UCC and the Bills Act and the Checks Act of Korea.

In Korea the Commercial Code prevails over the minbop (Civil Code) because the former is a special law in comparison to the

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14. This indicates that the Korean Commercial Code seems to serve as a receptacle for corporate law. Usually, courses in commercial law in Korean universities center on the interpretations of Book III of the Code.
15. Book IV covers the law of insurance, which largely divides insurance into insurance against loss and personal insurance.
16. The subject matters of Book V are shipowners, masters, carriage, general average, collision of ships, salvage, and claims over the ship.
17. Law No. 1001, Jan. 20, 1962, as amended (Korea).
18. Law No. 1002, Jan. 20, 1962, as amended (Korea).
21. Strictly speaking, Korea neither participated in nor signed these two conventions. Japan was one of the nations that ratified both conventions. Through the reception of the Japanese commercial legislation, Korea follows these conventions. Robert Braucher, Commercial Law in Japan and America, 47 A.B.A. J. 150, 152 (1961).
general status of the latter. The Commercial Code provides that "[w]hen there is no provision in this Code as to a commercial matter, the commercial customary law shall apply; and if there is no such law, the provisions of the Civil Code shall apply."\(^{24}\) The Civil Code governs contracts, torts, property, and the sale of goods.\(^{25}\) As long as the Commercial Code is linked to the Civil Code in Korea,\(^{26}\) the consultation of both codes is required to deal with the subject matters of the UCC.\(^{27}\)

**B. Differences Between the Commercial Codes of the United States and Korea: An Overview**

Though U.S. law has influenced the development of the Korean legal system since the end of World War II, the UCC is foreign, exotic, and discordant with Korean experience. This Section does not attempt to analyze the commercial codes of the United States and Korea in detail, but rather focuses on the fundamental differences between them.

First, different legal systems exist in the United States and Korea. The Korean legal system is based on the continental civil-law system,\(^{28}\) in contrast to that of the United States, which is derived from the common-law system.\(^{29}\) Codes and statutes are the primary sources of law by which Korean courts are bound. In addition, Korean courts are conscious of interpretations of codes and statutes

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24. **SANGBOP [COM. CODE]** art. 1 (Korea).
25. The Civil Code follows the German or pandectist model. It is divided into five books, which are arranged in order under the following major headings: general rules, real rights, claims, relatives, and succession.
27. For example, while the seller's right of resale—which is provided by the UCC—is addressed in the Korean Commercial Code, the Korean Civil Code—like the UCC—requires notice of the assignment of nominative obligation rights to the obligor to make the assignment enforceable against such obligor. See **U.C.C. §§ 2-706, 9-318(3)** (1990); **MINBOP [CIV. CODE]** art. 450 (Korea); **COM. CODE** art. 67 (Korea).
28. The reason why the Korean legal system is derived from the civil-law system is simply historical. See **infra** Part III.
29. The two alternative legal systems are commonly practiced throughout the world. But, as seen in other common-law countries, the United States stands at some distance from a traditional form of a common law system and much of its law is found in the form of codes, statutes, and regulations issued by governmental agencies.
by law professors and jurists, and sometimes resort to scholarly interpretations as a source of law. The law is articulated and codified so that the Korean legal system leaves, at least in the abstract, no room for adherence to the doctrine of stare decisis. It would be a mistake to assume that case law does not play any role in a civil-law system. Since uniformity is highly appreciated, the reality is that judicial decisions have some persuasive effect. As in other civil-law countries, de facto influence of a higher court upon a lower court is considerable in Korea.

In the absence of statutory clarification, case law sometimes provides the opportunity to weigh the merits of different views and contributes to the assessment of the strengths and weaknesses of competing visions of the law. Dependence on foreign case law also occurs as a matter of practicality in order to support or reject a particular result or interpretation.

30. SCHLESINGER ET AL., supra note 10, at 644 (observing that “courts in civil-law countries show more respect for the scholar’s view than is customary in the common-law world”).

31. The position of case law in a civil-law system and a common-law system respectively is most frequently compared by describing the differences between the two legal systems. See Mary A. Glendon, The Sources of Law in a Changing Legal Order, 17 CREIGHTON L. REV. 663, 673-77 (1984).


33. The authorities in the United States stress a case-by-case approach and warn against the drawing of general conclusions. PETER HAY, AN INTRODUCTION TO U.S. LAW 7-9 (2d ed. 1991).

34. SCHLESINGER ET AL., supra note 10, at 643-44 (explaining the status of case law in civil-law countries); see also DENNIS LLOYD, THE IDEA OF LAW 275 (1964) (stating that “the tendency in most, if not all civil-law countries is for more and more cases to be reported and for increasing weight to be given to judicial decisions as authoritative expressions of the legal principles to be applied in other cases”).

35. If a decision of a lower court in a subsequent case is not consistent with that of a higher court, it is very likely to be reversed on appeal. An interpretation of law rendered by the supreme court in a particular case is treated as the source of binding authority by the lower courts when that case is remanded to them.

36. The total number of Korean cases interpreting the Commercial Code is only a small fraction of the number of cases interpreting the UCC in the United States. Korea has not developed a considerable body of case law in commercial transactions. Korea’s history of modern law is too short to have a large number of cases. In addition, the scarcity of judicial decisions is mainly derived from cultural barriers and legal impediments to litigation.
U.S. judicial decisions, however, are of no great relevance to the development of Korean commercial law. At times, as a result of the Korean legal system being similar to that of Japan, Japanese cases are cited to supplement areas not covered by the Korean Commercial Code.\(^\text{37}\)

Second, while the United States, a federal nation, has tried to "make uniform the [commercial] law among the various jurisdictions,"\(^\text{38}\) domestic unification of commercial law has never been an issue in Korea. The concept of "federalism"\(^\text{39}\) does not exist in Korea. Korea is not a federal nation. Therefore, the Korean Commercial Code enacted by the national legislative body is an integral part of a unified nationwide legal system of Korea.

The third difference is found in the attitudes of legislative and judicial institutions of the United States and Korea toward commercial codes. The UCC is more complete and sophisticated in dealing with complicated or strategic commercial issues and more flexible and responsive to the perceived needs of the commercial and legal communities than the Korean Commercial Code.\(^\text{40}\) The attitude of the Korean legislature is viewed as ignoring necessary and far-reaching innovations in commercial legislation.\(^\text{41}\)

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38. U.C.C. § 1-102(2)(c). The diversity in state commercial laws of the United States was the product of the legislative process of fifty different states instead of a single national legislature. Since early times, there have been steps toward uniformity and harmonization of commercial laws in the United States.
39. The term "federalism" can refer to the division of the legal authority and power between national and state governments. See \textit{Black's Law Dictionary} 612 (6th ed. 1990).
40. For example, only five articles in the Korean Commercial Code address sales between merchants. \textit{Com. Code} arts. 67-71 (Korea).
41. For example, unlike the UCC, the Korean Commercial Code does not yet seriously consider the electronic funds transfer. The electronic funds transfer is the primary focus
The Korean courts generally have applied provisions in the Commercial Code with mechanical rigidity to commercial law issues put before them. Despite new considerations and changing conditions, which indicate that earlier interpretations of statutory provisions are no longer in accord with statutory objectives, Korean courts usually have been reluctant to change their interpretations of such provisions. This phenomenon indicates that the Korean courts are committed to straightforward literal analysis. Consequently, U.S. jurisprudence has made no substantive or qualitative contribution to the Korean courts' interpretation of the Commercial Code.

III. THE KOREAN COMMERCIAL CODE IN HISTORICAL PERSPECTIVE

For the most part the Korean Commercial Code is palpably foreign in origin and inspiration. To better understand the UCC's lack of influence on the Korean legal system, an appreciation of the historical background against which commercial transactions have been made in Korea over the past many decades, and of the change which the Korean Commercial Code and its structure is now undergoing, is required. This Part will examine the Korean Commercial Code in historical perspective, thereby hoping to clarify its development.

Reformation of Korea's judicial system commenced around the end of the nineteenth century with the introduction of the modern legal system to Korea. In reality, the reform was brought about by Japanese coercion and was the by-product of Japan's efforts to reduce the competing influence of China on Korea. With the establishment of a system of courts modeled on the German system in 1894, Korea made the first step toward the modernization of its legal system.

of Article 4A of the UCC. See U.C.C. art. 4A.

42. Korean courts are inclined to interpret the law very narrowly. Korean judges argue that the literal reading of statutory provisions guarantees the continuation of practical activities. Chang Soo Yang, The Judiciary in Contemporary Society: Korea, 25 CASE W. RES. J. INT'L L. 303, 313 (1993) (noting that in the Korean judiciary, the judge "proceed[s] as the mere operator of a machine designed and built by the legislator, in a most mechanical and uncreative way, in both substantive and procedural matters").


44. PYONG CHOON HAHM, KOREAN JURISPRUDENCE, POLITICS AND CULTURE 3 (1986).
In 1910 Korea was forcibly annexed into Japan's growing colonial empire, and Japan set out to separate Korea from its five thousand years of tradition. The occupation and annexation put an end to Korea's longstanding reception of Chinese law.\textsuperscript{45}

From 1910 to 1945, the Japanese controlled legislation and administration in Korea. The Japanese subjugated Koreans by suppressing all political freedom, depriving Koreans of all fundamental—rights including the use of their mother tongue—and imposing many parts of their legal system upon Korea. One of the Japanese codes transplanted to Korea during this period was the Japanese Commercial Code of 1899.\textsuperscript{46} Moreover, the Japanese asserted supremacy over the Korean judicial system. Koreans were not allowed to participate in either the preparation or the enactment of the law to be applied in their country and in the extension of Japanese law to Korea.\textsuperscript{47} The history of Korean commercial law during Japanese rule consisted of the gradual and forcible replacement of Korean law and customs by Japanese law.

Japanese rule over Korea terminated on August 15, 1945. The liberation of Korea did not change its commercial law. Japanese laws remained in force until new Korean laws were enacted. Korea was then facing an identity crisis after thirty-five years of being a Japanese colony. Korea had no choice but to continue to use Japanese law in order to avoid a legal vacuum. Since Korea had no experience in drafting modern commercial laws, it was unable to quickly replace the Japanese Commercial Code that was in effect.

Korea's liberation was followed by division at the hands of the United States and the Soviet Union. The U.S. Military Government

\textsuperscript{45} Gyung-Hak Chang et al., \textit{Discussion: Korean Legal Traditions, in \textbf{LEGAL SYSTEM OF KOREA} 203, 207 (International Cultural Found. ed., 1982)} (discussing Korea's legal tradition). Present-day Korean law is quite different from modern Chinese law. But Koreans were under Chinese cultural and political influences for many centuries—probably from the first century B.C. onwards—and therefore it was natural that they adopted Chinese law and legal tradition. This does not mean that old Korean law is a replica of Chinese law.

\textsuperscript{46} This Japanese Commercial Code was patterned primarily after the German Commercial Code. \textbf{YOSIYUKI NODA, INTRODUCTION TO JAPANESE LAW} 53 (Anthony H. Angelo trans. \& ed., 1976). Based on the fact that the indirect reception of German law was possible in Korea, the Korean Commercial Code finds its roots in German law.

was present in South Korea from the liberation of 1945 through 1948, when the Republic of Korea was established.\textsuperscript{48} According to the United Nations plan, it served as an interim government to assure the passage of power to the Koreans at a future time. Benevolent as it was, it deprived Koreans of self-determination.

The U.S. Military Government neither replaced the Japanese Commercial Code nor made any significant changes to the Korean legal system. Instead, the Military Government issued an ordinance stating that "all laws, regulations, orders or notices issued by any former government or having legal effects as of 9 August [1945] were continued in force unless especially repealed or modified by the Military Government."\textsuperscript{49}

Soon after the establishment of the Republic of Korea in 1948, the Korean government began to make efforts to supersede the existing Japanese laws by passing its own codes. The efforts were directed toward sweeping away the legacy of Japanese colonial rule and enacting laws which were more receptive and responsive to Korean customs and traditions. The Code Compilation Commission was organized by the Presidential Decree in 1948 and its main purpose was to prepare proposed codes.

Due to the turmoil of the Korean War which lasted from 1950 to 1953, the work of preparing the draft of the Korean Commercial Code was not completed until 1957. After completion, the National Assembly, the Korean counterpart of the U.S. Congress, and the Office of Legislation of the Administration spent several years deliberating on it.

The military coup d'état in 1961 also delayed the enactment of the Korean Commercial Code. The Supreme Council for National Reconstruction, a legislative body acting under the military government, adopted the draft with modifications on January 19, 1962, and promulgated the Korean Commercial Code on the following day. The Code became effective the next year. However, it was almost impossible for the framers of the Korean Commercial Code to succeed in removing the vestiges of Japanese law, because much of Japanese commercial law had already been incorporated into the

\textsuperscript{48} When the Japanese withdrew, the United States and the Soviet Union moved in. The Soviets occupied all territories above the 38th parallel, the U.S. everything south of the parallel. LEE, supra note 43, at 374-75.

\textsuperscript{49} HAHM, supra note 44, at 146 (quoting Supreme Commander for the Allied Powers, Summation of Non-Military Activities in Japan and Korea, No. 2, Nov. 1945, at 183).
Japanese law served as a framework for making the Korean Commercial Code. Unlike the Japanese Commercial Code of 1899, which was modeled primarily on German law, Korea’s own Commercial Code was influenced by U.S. law as well as German law. The Korean Commercial Code had some provisions taken from German sources and some adaptations taken from U.S. law. However, the reception of U.S. law has been apparently evidenced only in the field of corporate law. As significant developments in the Korean economy continued, there had been a growing interest in amending the Commercial Code among scholars, lawyers, and businessmen. Korea needed to update certain provisions of the Commercial Code in order to bring it more in accordance with business realities. But, in 1984, a comprehensive revision was made only to Book III of the Code. In 1991 there were amendments only to Books IV and V, which set up rules of law applicable to insurance and maritime commerce. In late 1995 the new revision of the Korean Commercial Code was adopted. However, the revision is designed to achieve far-reaching reform in Korean corporate law.

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50. Geography, similar cultures and legal systems motivated the framers to receive many statutory provisions from the Japanese Commercial Code. Ironically, all the framers of the Korean Commercial Code got their legal education or practiced law during the period of Japanese rule.

51. Since Book III of the Korean Commercial Code bore resemblance to and in places combined German and U.S. legislation, it was characterized as a blend of German and U.S. law. The absorption of U.S. law into Korean legislation was made by following the 1950 amendment to the Japanese Commercial Code.


52. Law No. 3724, Apr. 10, 1984 (Korea). In Korea the 1899 Japanese Commercial Code—which was applied in Korea during Japanese rule—and the 1962 Korean Commercial Code are frequently referred to as the “Borrowed Commercial Code” and the “Old Commercial Code” respectively. The 1984 amendment to the Korean Commercial Code is often named the “New Commercial Code” or the “Revised Commercial Code.”


54. Law No. 5053, Dec. 29, 1995 (Korea).
IV. CONCLUSION

Korean commercial law was initially modeled on German commercial law and shares many basic concepts and general principles with German commercial law. Differences in the historical and legal backgrounds of the United States and Korea have made the Korean Commercial Code considerably different from its U.S. counterpart. These differences have led to differing commercial environments. Reception of provisions from the UCC by Korea is therefore a difficult task. Even if amendments are made to the Korean Commercial Code in the future, they will not radically depart from the established principles of Korean commercial law.