

The Cooperative Movement in Korea

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Abstract

The cooperative movement in the Republic of Korea has had a long history. The first cooperative was established in 1907 to provide financial aid for farmers. Since then, agricultural cooperatives have been the most prevalent type of cooperative operating in Korea. However, the landscape of the Korean cooperative movement has been changing rapidly since the implementation of the Korean Cooperatives Fundamental Law as of December 2012. In light of the United Nations designating the year 2012 as the Year of the Cooperatives, the Korean National Assembly passed the Korean Cooperatives Fundamental Law with the expectation that it would help bolster the national economy, leading to job creation and establishment of small businesses. Not only has the new law simplified the process and requirements needed to establish cooperatives, but it is expected to encourage greater cooperation amongst previously fragmented cooperatives by being under the authority of one organization, namely, the Ministry of Strategy and Finance. This paper provides a historical overview of cooperatives, examines the unique cooperative movement in Korea, analyzes the effects of the new law, and discusses possible factors that may help Korean cooperatives succeed in today's competitive environment.

I. Introduction

It is commonplace nowadays to read about nations struggling with issues of stunted economic growth and the deter-

ioration or utter collapse of long-standing financial markets that have had a detrimental domino effect worldwide. It is in the midst of such struggling economies that we have also seen the emergence of cooperatives. As economic enterprises, these cooperatives have played a crucial role in improving the socio-economic

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well-being of both their members as well as the local communities in which they are situated. Moreover, there are countless examples and stories that can be told of how cooperatives have served as catalysts for social organization and cohesion during difficult economic times when it seems that only the rich seem to be getting richer.

In recognition of cooperatives as business enterprises that highly regard democratic values while also respecting the environment, the United Nations designated the year 2012 as the Year of the Cooperatives. By proclaiming 2012 as the Year of the Cooperative, the UN hopes to rally international support to strengthen cooperatives and thereby, achieve the Millennium Development Goals by 2015 and alleviate world crises.^[FN1] Empirical evidenceshows that cooperatives have proven to be an attractive alternative to privately-owned firms thatcan also be successfully operated.^[FN2]

The purpose of this paper is to provide a historical overview of cooperatives, examine the unique cooperative movement in Korea, analyze the effects of the Korean Cooperative Fundamental Law, and discuss possible factors that may help cooperatives succeed in today's competitive environment.

II. The Origin of Cooperatives

As a distinct business form, the cooperative traces its origins back to the enterprises of Scottish industrialist Robert Owen in the nineteenth century. Today's vast array of organizations that call themselves cooperatives may differ in origin, structure, governance, degree of participation, objectives, the benefits provided to its members, and in economic focus. Nevertheless, irrespective of such differences, underlying all cooperatives are certain principles that differentiate cooperatives from other business enterprises.

According to the representative body for cooperatives, the International Cooperative Alliance (ICA) defines a cooperative as "anautonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise."^[FN3] From this definition, the following seven principles may be extracted: voluntary and open membership; democratic member control; economic participation by members autonomy and independence; education, training and information; cooperation among cooperatives;

and concern for its community. Of these seven cooperative principles, the first four are often viewed as being the “core principles”, meaning that a cooperative would lose its identity if these four core principles were missing. The core principles provide for all cooperatives the conditions whereby it is guaranteed that regardless of any other differences, the members of all cooperatives will have the ability to own, control, and benefit from the cooperative enterprise. In fact, these principles form the basis for the legal frameworks under which almost all cooperatives are incorporated around the world. Therefore, any organization that wishes to incorporate itself as a cooperative is expected to conform to these principles in part or in its entirety.

III. Analysis of Cooperatives in Korea

1. Before December 2012

The cooperative movement in Korea can be traced back to the very first credit union that was established by farmers in 1907 for the sake of providing financial

aid to farmers. Like many cooperatives that were set up during that time in neighboring countries in Asia, the first official cooperatives to be established were those of agricultural cooperatives. When Korea gained its independence in 1945, many rural communities had been devastated by the war and suffered from chronic food and supply shortages. To help such communities recover and increase agricultural productivity, the government enacted the Agricultural Cooperative Law in 1957 as a means of encouraging the establishment of cooperatives at the village level.

In 1961, the agricultural cooperatives were merged with the Agricultural Bank to create a multi-purpose cooperative system to meet the diverse needs of farmers and the nation. This system later resulted in creating the National Agricultural Cooperative Federation (NACF) as the umbrella organization for all farm cooperatives. The scope of NACF covered village cooperatives providing farm loans and the supply of fertilizer as well as county and city cooperatives that provided financial services, such as credit, insurance, and managerial advice.^[FN4]

Unlike the typical Western cooperative that facilitated bottom-up growth with an emphasis on autonomous self-help, as

evidenced by the key principles outlined by the ICA, the first Korean cooperative had a rigid top-down approach whereby government guidance and direction took precedent over voluntary membership involvement. Despite lacking the basic cooperative principles of member democracy and independence, the NACF was still able to provide benefits to farmers such as a 50 percent reduction of interest burden, enhanced distribution of products, bargaining power against wholesalers, and access to inexpensive necessity goods. Moreover, from the viewpoint of the national economy, the NACF helped increase rice production and satisfy the food demands of the nation. It is worth noting that NACF would not have been so instrumental to the national economy were it not for the support it received from the government. The NACF is still operative today and was in fact, ranked as the 9th largest cooperative in the ICA 2011 Global 300 list.^[FN5]

Based on its relative success with agricultural cooperatives and the NACF, similar cooperative laws were enacted to allow for forestry cooperatives, fishery cooperatives, credit unions, and consumer cooperatives. However, like the agricultural cooperatives, all cooperatives established

prior to the new law that was implemented in December 2012 were similar in that there is a heavy reliance on governmental involvement and guidance. Given that different cooperatives were established under different cooperative laws and therefore, were under the authority of different ministries of the government, this fostered an environment of separation among the different cooperatives rather than one of cooperation and cohesion.

Recognizing such limitations of the cooperative movement and to meet the needs of newly emerging cooperatives, thirty-two organizations including the Consumer Cooperation International in South Korea formed a committee to work on the enactment of a new cooperative law in October 2011.^[FN6]

2. After December 2012

On December 29, 2011, the National Assembly passed the Framework Act on Cooperatives (hereinafter “the Act”), which was officially enforced as of December 2012. The execution and implementation of the Act fall under the authority of the Ministry of Strategy and Finance. The Minister of Strategy and Finance is responsible for administering policies on

cooperatives, establishing a master plan, conducting a factual survey of cooperatives every three years, and reporting the findings of such surveys to a standing committee of the National Assembly. The new Act was created to deal with the restrictive nature of existing cooperative laws while also acknowledging the contribution of the cooperative sector in dealing with the challenges stemming from the global financial crisis. Additionally, the new law is expected to help “the establishment of cooperatives or federations of cooperatives in various industries, providing small businesses with opportunities for fair competition.”^[FN7] Unlike earlier cooperative laws that were used to establish agricultural cooperatives and that had a great degree of reliance on governmental direction and control, the contents of the new law generally seem to satisfy ICA recommended cooperative values and principles.

According to Article 1 of the Act, the purpose of the Act is to “facilitate independent, self-supportive, and autonomous activities of cooperatives and so contribute to social integration and balanced development of the national economy by providing for basic matters regarding the establishment and operation of coo-

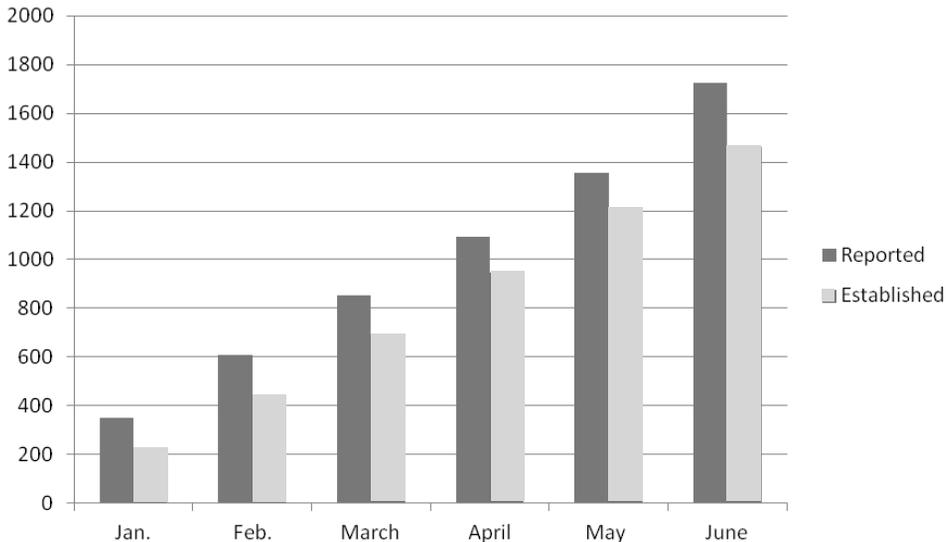
peratives.”^[FN8] In Article 2 of the Act, there are essentially four types of entities that are created by the Act. The first created entity is that of the “cooperative,” which is defined as “a business organization that intends to enhance its partners’ rights and interests and contribute to local communities by being engaged in the cooperative purchasing, production, sales, and provision of goods or services.”^[FN9] The second entity is the “federation of cooperatives” which is a grouping of several cooperatives designed to promote the common interests of the cooperatives. The third entity is that of the “social cooperative” which is a cooperatives that “carries out business activities related to the enhancement of rights, interests, and welfare of local residents or provides social services or jobs to disadvantaged people...but is not run for profit”^[FN10]. The last entity is the collective gathering of social cooperatives categorized as the “federation of social cooperatives,” created to promote the common interests of the social cooperatives. In addition to establishing new cooperatives, the new Act will also allow approximately 4,000 to 8,000 enterprises, which were operating as corporations due to the absence of a proper legal basis, the

opportunity to become cooperatives.^[FN11] In order to establish a cooperative, Article 15 of the Act indicates that the first requirement is to have five or more incorporators from any industry who are qualified for membership. Such incorporators must prepare the articles of association, bring the articles of association to the inaugural general meeting for adoption, and lastly report the articles of association to the competent Mayor/Do [endnote- province] Governor having jurisdiction over its principal place of business. Once the articles of association are submitted to the appropriate Mayor/Do Governor, he/she must then notify the Minister of Strategy

and Finance. Unlike establishing a cooperative, to establish a social cooperative, the incorporators must report directly to the Minister of Strategy and Finance.

Under the new Act, various kinds of businesses including those in the services industry can form cooperatives or federations of cooperatives to provide services in nursing, daycare, cleaning, recycling as well as manufacturing and distribution.

Since being implemented in December 2012, the new law has changed the landscape of the cooperative movement in Korea at a rapid pace. As depicted in [Exhibit 1], the number of established cooperatives in January 2013 was 225. This



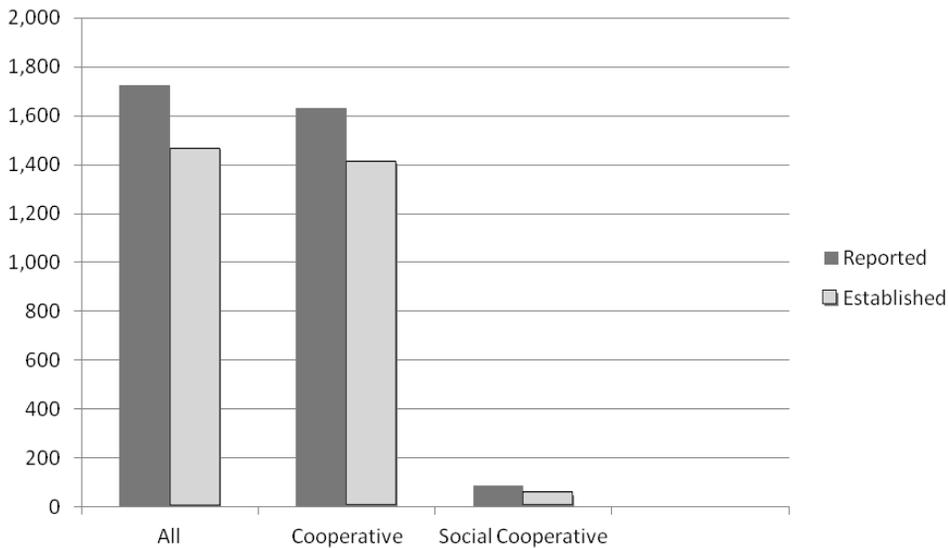
[Exhibit 1]

number has steadily been increasing as of January 2013 and was at 1,461 as of June 2013. ^[FN12]

From [Exhibit 2], of the two large categories of cooperatives possible under the new law, the creation of a general cooperative is preferable over that of a social cooperative. ^[FN13] Although the new law has the same requirement (a minimum of five individuals) for establishing either a cooperative or a social cooperative, there is an uneven preference towards establishing cooperatives over social cooperatives. The fact that the law requires that the Minister of Strategy and Finance grant authorization to establish a social cooperative

seems to act as a deterrent in the number of applications to set up such social cooperatives.

In line with this heightened interest in establishing cooperatives, the Seoul City Council announced on February 13, 2013 the city's basic plan for promoting cooperatives, which included developing a decree for cooperatives, and providing support for the following seven sectors of cooperatives: collective education, care, health, housing, the market for traditional crafts, parents with babies, and temporary employment. ^[FN14] The mayor of Seoul indicated his intentions to create a new Seoul where each person belongs to at



[Exhibit 2]

least one cooperative ^[FN15].

Additionally, the city of Seoul has outlined the following six goals as part of its vision for cooperatives: 1) guarantee cooperatives' active participation in delivering public service and its quality improvement; 2) fostering self-employment and promoting competitiveness of small co-ops through business cooperation; 3) strengthening workers' co-op through education and technical support for sustainable job creation; 4) promoting regeneration of communities through building co-ops in various sectors; 5) enrichment of civic education and leadership training for dissemination of a co-operative culture; and 6) making collaborative fund-raising to support cooperatives' self-reliance and growth. ^[FN16]

Prior to enacting the new Korean Cooperative Fundamental Law in December 2012, earlier cooperative laws in Korea were seemingly over-regulated. This is understandable given the historical context and evolution of the first cooperatives in Korea. Given the heavy degree of governmental involvement, many cooperatives that were established through the earlier laws lacked the aforementioned principles that typically defined the essence of a cooperative according to the ICA. The expectation is that the new law will

change all of this. The greater degree of flexibility afforded by the new law is evident by the sheer number of cooperatives that have been established during the first six months in 2013.

Article 1 of the new law makes it clear that the purpose of the Act is to allow for the creation of cooperatives that are independent, self-supportive, and autonomous. All of this is in line with ICA principles. However, it is interesting to note that the purpose of the Act goes beyond this point to also include the "social integration and balanced development of the national economy." Although there is no denying that cooperatives have historically proven to be an effective way of developing market economies, the primary emphasis of the cooperative as a business enterprise structure has always been to improve the socio-economic welfare of its members, who are ordinary people with everyday needs. The Korean Cooperative Fundamental Law includes an element related to developing the national economy. The inclusion of this is reflective of the constant struggle and tension to maintain a balance where the law seeks to secure maximum participation by private economic actors who have essential decision-making power while

also allowing for some, albeit limited, governmental participation.

While the new Act is certainly conducive to setting the right environment for establishing cooperatives, with the rapid development of technology coinciding with the Korean government's initiatives to globalize and liberalize trade by executing various free trade agreements, it will be necessary for the cooperatives to become far more flexibility and creative in order for such cooperatives to be successful. In fact, while still staying true to their core principles that distinguish them as cooperatives, it may be necessary for cooperatives to adopt some practices that have traditionally fallen under the realm of corporations. For example, forming strategic alliances with other domestic or even international cooperatives may help cooperatives become far more competitive and successful in operating their enterprises. Additionally, cooperatives in many countries have had to change their membership system to improve stability and enhance their competitiveness. For example, the Credit Agricole Group based in France has opened its membership to almost every customer who uses their local banking-branches. There is also the notion of the "associate member" system

that has gained popularity in both the European Union and Japan. As the Korean cooperative movement enters into a new stage of greater flexibility with the enactment of the new Act, whether established under the old cooperative laws or under the new Act, it would serve all types of cooperatives well to consider strategies and techniques employed by non-cooperatives as a means of enhancing their overall competitiveness and rate of success.

IV. Conclusion

With the implementation of the new Act, Korean cooperatives today are able to enjoy a greater degree of flexibility and autonomy in not only how they are established but also how they are operated. With less government control and interference, cooperatives can no longer rely upon the government for financial support, subsidies, or bailouts. The only way for cooperatives to succeed today is to become more competitive while still staying true to the key principles that have made them such a unique way of doing business. Today's cooperatives will only be able to succeed to the extent that they are

able to think globally while still acting locally to best serve the interests of their members and communities.

Footnotes

- [FT1] The Millennium Development Goals are eight international goals that were officially established after the Millennium Summit of the United Nations in 2000, following the adoption of the United Nations Millennium Declaration. The eight goals are: 1) eradicate extreme poverty and hunger; 2) achieve universal primary education; 3) promote gender equality and empower women; 4) reduce child mortality rates; 5) improve maternal health; 6) combat HIV/AIDS, malaria, and other diseases; 7) ensure environmental sustainability; and 8) develop a global partnership for development. Retrieved from <http://www.un.org/millenniumgoals/sgreport2002.pdf?OpenElement>.
- [FT2] In an IMF survey in 2007, it was found that cooperative banks have become important parts of many financial systems, with attendant potential financial stability issues. Retrieved from www.imf.org/external/pubs/ft/survey/so/2007/RESO925B.htm
- [FT3] See International Cooperative Alliance website, www.ica.coop
- [FT4] NACF, Annual Report, 2001, pp.35-36.
- [FT5] ICA Committee on Consumer Cooperation for Asia and the Pacific - Korea.
- [FT6] "Framework Act on Cooperatives to take Effect from December 2012," Retrieved from <http://english.mosf.go.kr/eco/view.do?bcd=E0009&seq=33&page=1>.
- [FT7] Ibid.
- [FT8] Framework Act on Cooperatives, Act. No. 11211, Jan. 26, 2012
- [FT9] Ibid.
- [FT10] Ibid.
- [FT11] Retrieved from <http://www.thenews.coop/article/icoop-korea-launches-international-year-co-operatives>.
- [FT12] Retrieved from <http://www.cooperatives.go.kr/>.
- [FT13] Ibid.
- [FT14] Retrieved from <http://reliess.org/seoul-city-council-aims-to-increase-the-number-of-cooperatives-in-8000-over-the-next-10-years-and-the-economic-size-to-14-37-trillion-won-9-89-billion-e/?lang=en>.

- [15] Ibid.
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