

**A Retrospective on the Korean Film Policies:
*Return of the Jedi***

Jimmyn Parc

Executive summary

The Korean film industry offers a remarkably successful and fascinating story all the more because it was largely unexpected. Almost totally destroyed after the Japanese occupation (1910-1945), it started to revive only for being wiped out by the Korean War. It witnessed some shiny years during the immediate post-war period, but faced again considerable troubles from the 1970s to the mid-1990s. In the late 1990s, the Korean film industry started again to blossom, and shows an impressive success in the domestic market since then. Korean films enjoy an average market share of 54 percent over the last decade, with record peaks of 60-65 percent. Last but not least, the Korean film production has earned many prestigious awards at top international films festivals—making increasingly attractive Korean culture.

The purpose of this paper is to assess whether Korean film policies have been instrumental in this success. The conclusion is—surprisingly at a first glance—that Korean film policies have played almost no significant role.

- The import quotas (1956-1986) limited the quantity of films to be imported, but did not prevent Koreans to rush to the good foreign films and to abandon theaters showing Korean films; and they were toxic because they strongly induced Korean films makers to produce bad quality movies.
- The screen quota policy (1966 until today) has largely been a “paper tiger” simply because imposing a mandatory number of days for the exhibition of Korean movies does not mean that Koreans will watch these movies. Even more importantly, other provisions, especially the free market access of US film-makers in Korean distribution, have created a competition between US and Korean film-makers that induced Korean film-makers to show their ability to create more attractive and lucrative movies than foreign films.
- The subsidy policy has been too limited and too late for being credited for any significant impact on the success of the Korean film industry (which started almost a decade before the emergence of notable subsidies).

These results are robust enough to suggest to European policy-makers to review their own policies that advocate merely protectionism as a way to make more attractive national culture. They also suggest the need to understand better the role of private business in the Korean film success—possibly with some interesting lessons for the European business.

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Introduction

The Korean film industry offers a remarkably successful and fascinating story because it was largely unexpected. Japanese occupation (1910-1945) imposed increasing censorship and obstacles to the growth of Korean films, culminating in a complete ban of Korean-speaking films in 1942 (Kim, 2007). When Korea was liberated in 1945, only a handful of Korean movies were annually produced. Under the US Army Military Government (1945-1948), Hollywood films were directly distributed to Korean theaters so that, after decades of exclusive exposure to Japanese movies, Korean audiences became familiar with Hollywood style (Shin, 2008: 43). During the Korean War (1950-1953), many Korean film directors worked for or under the US Army and government which provided South Korea with modern film technology and equipment (Paquet, 2007; Song, 2012). After the war, the Korean film industry was rising from its ashes. The 1950s-1960s were shiny years, but were followed by considerable troubles from the 1970s to the mid-1990s for reasons explained in the paper.

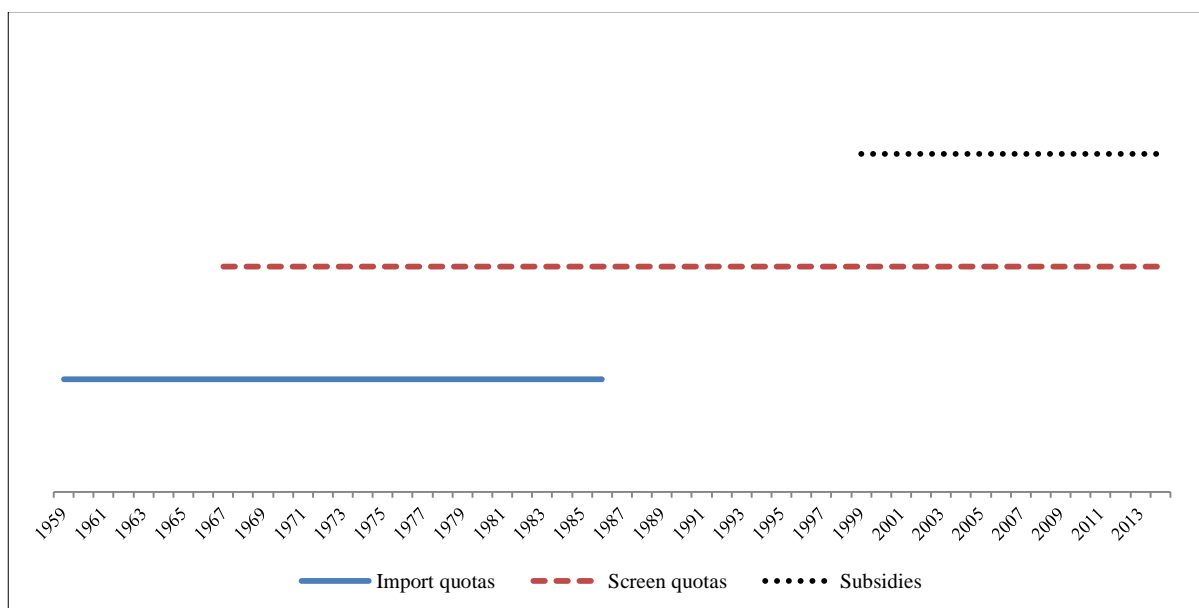
In the late 1990s, the Korean film industry started again to blossom. Since then, it shows an impressive success in the domestic market: Korean films enjoy an average market share of 54 percent over the last decade, with annual record peaks between 60 and 65 percent. The Korean film production has become internationally competitive and, last but not least, it has won prizes at renowned international film festivals: *Thirst* (Jury Prize, 2009 Cannes Festival), *Poetry* (Best Screenplay Award, 2010 Cannes Festival), *Night Fishing* (Golden Bear for Best Short Film, 2011 Berlin Festival), and *Pietà* (Golden Lion, 2012 Venice Festival). In short, the Korean film industry is fuelling one more dimension to “*Hallyu*,” the Korean Wave, and to a newly hip identity, an emerging “Asia’s cultural powerhouse” (Chua and Iwabuchi, 2008; Time, 2012; Parc and Moon, 2013).

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The Korean film industry offers a story of great interest for other countries. Since the 1960s, most of the Korean governments have followed an active cinema policy in order to promote and protect its culture—a line not much different from the one adopted in certain European countries, such as France. For instance, President Park Geun-hye is often highlighting the importance of “creative economy,” a combination of industry, business, and culture. The successful renaissance of a film industry in a country not shy about cultural policies raises the following questions. Have the Koreans found the “magic trick” of a successful film policy? From the Korea’s experience in film policy, what kind of lessons can countries with unsuccessful cinema policies learn?

This paper aims to answer these questions. It is organized in three sections, each of them centered on the most important policy instruments illustrated in Figure 1. (A synopsis of the policies is given in the Appendix.) The fact that Korea used all these instruments makes even more interesting to analyze its film policy. Section 1 focuses on the “import quota” regime which dominated the Korean film policy from the early 1960s to 1985. Section 2 turns to the “screen quota” system which has been the most visible element of the Korean policy since 1987. Section 3 examines the subsidy policy which emerges in the late 1990s when Korea became rich enough to think about using such an instrument. Section 4 concludes.

Figure 1. The three key instruments of the Korean film policy, 1959-2013



Section 1. The import quotas: irrelevant and toxic (1959-1986)

The first important protective measure was taken by the Korean government in 1958. It consisted in limiting the number of foreign films imported in Korea every year—the so called “import quotas” (for detail, see Appendix). Initially, the import quota was based on a reward system: only firms successful in producing or exporting Korean movies could import foreign films. The rationale was to create a self-sustaining virtuous system: exporting films was seen as requiring the production of high-quality Korean movies, and the foreign currency earned by exporting could be then reinvested into Korean film production. As for any other sector of the Korean economy, export performance in the film industry was seen as a sign of “excellence”—the legitimate source for having the right to import more attractive and profitable foreign films (Jwa and Lee, 2006: 95).²

The import quota regime was amended no less than four times until its abolition in 1986 (for detail, see Appendix). But, the key change took place in 1966 when this “quality-based” reward system was replaced by a rigid “quantity-based” rule: for one film imported, there shall be three Korean films screened. What counted thus was merely the number of exported and screened films.

In addition to these “external” (trade-related) considerations, the government felt necessary to adopt “internal” (domestic industrial structures) provisions inducing Korean film firms to reach a certain size. It imposed that Korean film companies must produce at least 15 movies (all commercial in nature) per year. The rationale was that being successful in foreign markets would require large firms able to produce quality films. Such firms would also facilitate the transfer of foreign-based profits into domestic production.

Combined, all these provisions tended to shape a concentrated industry, with a strong integration between importers, exporters, and producers. Indeed, the consolidation process was dramatic: 65 small film companies were consolidated into 17 large companies after 1963 (Kim,

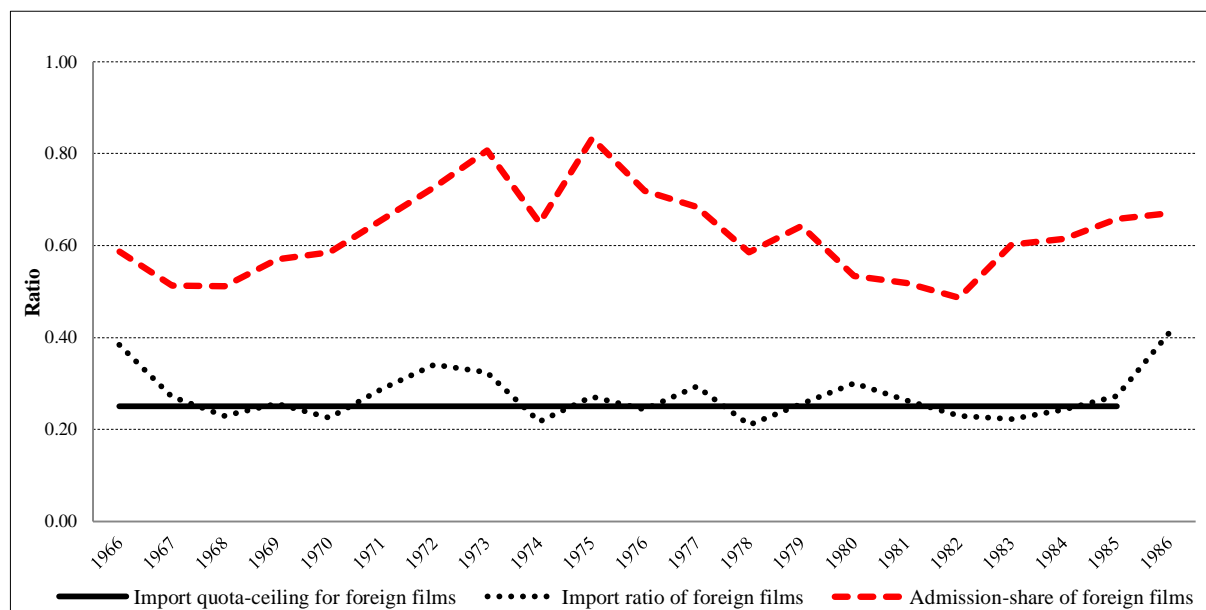
² In fact, this “reward” system worked during the 1950s. The transfer of US advanced filmmaking equipment and technology to Korean filmmakers and production companies allowed Korea to become one of the most dynamic movie industries in Asia; with films exported to Southeast Asian countries where the production styles of Korean directors were copied (Kim, 1998: 130-135). Korean directors were even invited to Hong Kong to produce movies there (contributing to the Hong Kong movies boom), as best illustrated by Director Shin Sang-ok who had a life like his movies’ heroes (he and his wife were kidnapped by North Korea).

2007) while the numbers of small film companies fell from 71 to 16 to 6 in 1959, 1962, and 1963, respectively (Jwa and Lee, 2006: 96).

What has been the impact of the import quota regime on the performances of the Korean film industry? Figure 2 suggests a first set of observations based on three indicators (starting from 1966 because there is no systematic available data before this year):

- The import quota-ceiling for foreign movies: it is defined by the rule of one foreign film imported for three Korean films released, that is, is equal to 0.25 (1 divided by 4 [4=1+3] movies).
- The import ratio of foreign films: it is given by the share of foreign films in the total number (foreign and Korean) of films released in Korea.
- The market share of foreign films: it is defined by the admissions for watching foreign films as a share (percentage) of all the admissions in the Korean theaters.

Figure 2. The import quotas: enforced but irrelevant



Note: based on author's calculations.

Data source: Koreanfilm.org, <http://www.koreanfilm.org> (for 1966-1986).

Figure 2 shows that the import quota was well enforced: the import ratio of foreign films follows closely the import quota-ceiling. Yet, a full assessment of what was going on requires to look further than mere compliance to the import quota-ceiling. This is because the key criterion for a successful film policy is the number of admissions that domestic films attract, not the number of domestic films produced. Figure 2 shows that the share of admissions for

watching foreign (de facto US) films is much higher than the import quota-ceiling. The reason is simple: foreign films attracted much larger Korean audiences than Korean movies did. In short, the import quota system was well enforced, but irrelevant to the development of Korean films.

The import quota system was not only irrelevant: it was also very toxic for the Korean film industry. The expected virtuous process of “*high quality production, hence high earnings from exports, thus high investments in domestic film production*” did not work at all. Far to promote a Korean film production of high quality as initially intended, its quantity-based rule induced Korean filmmakers to produce quickly movies—nicknamed “quota quickies”—and to export them in order to have the rights to import foreign movies.

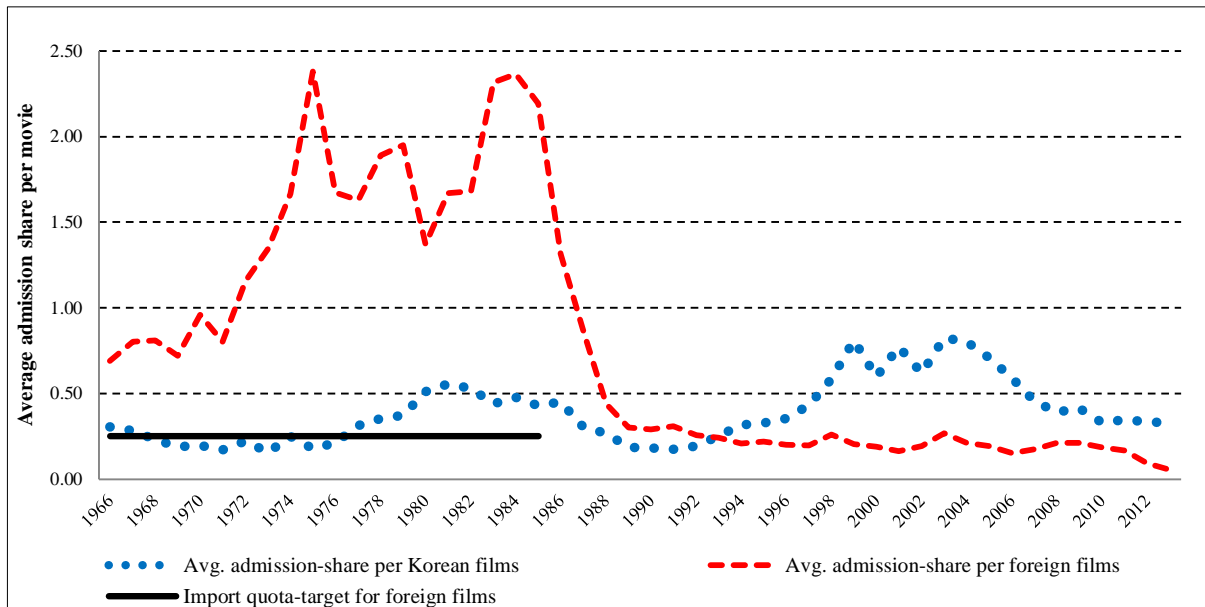
Available data shows that the average price of exported Korean films was extremely low in the two major export markets of Korean movies, Taiwan and Hong Kong—as little as USD200 (today, approximately USD500 to 600 Lent, 1990) during the mid-1970s and early 1980s. The whole system then fell into an unintended vicious circle (Kim, 2007): granting import licenses to producers exporting Korean quickies could only bring back low foreign earnings, producing low-quality Korean films in the following years, hence less exports of Korean movies (from 1980 to 1986, the last years of the import quota regime, only 17 Korean films per year were exported, compared to almost 80 during the 1970s).

The toxic impact of the import quota regime on the quality of the Korean film industry is well captured by Figure 3 which shows a striking contrast between the two periods: the years under quantity-based import quotas and after. When the import quota regime was imposed, the average admission share per foreign movie was much higher than the average admission share per Korean movie. For instance, the average admission share per foreign movie was 1.67 percent of all the admissions in 1981, 3 times higher than its Korean equivalent (0.55 percent); and it was 2.38 percent in 1975, 13 times higher than its Korean equivalent (0.18 percent). In other words, three Korean films were “needed” to attract the same size of audience for one foreign film in 1981—and 13 in 1975.

When the import quota regime was abolished at the end of 1986, this anomaly vanished overnight, leaving little doubt about the causality. Even more remarkably, the emergence of a successful Korean film industry in the 1990s has been characterized by a complete reversal of

the relative attraction of Korean and foreign movies: during the peak period of the very late 1990s to the mid-2000s, two foreign films have been “needed,” on average, to attract the same size of audience than one Korean movie.

Figure 3. The import quotas: highly toxic



Note: based on author’s calculations.

Data sources: Koreanfilm.org, <http://www.koreanfilm.org> (for 1966-2002), Korean Film Commission (various issues) (for 1999-2002), and Korea Film Council (various issues) (for 1998-2013).

The industrial policy-type regulations aiming at “integrating” Korean film firms made things worse because the few consolidated firms left had few incentives to compete in such an oligopolistic situation (Jwa and Lee, 2006: 99-100). The Korean government tried to address this issue, but it did so in a time-inconsistent way. In 1966, the conditions for the registration of production companies were loosened, and the minimum annual production of each company for maintaining registration was lowered from 15 to 2 films. As a result, there were more competitors with participation of small sized productions. However, in 1970, the number was increased again from two to five. Regarding the integrated relations between film exporters and importers imposed in 1963, they were eliminated in 1970, but re-introduced in 1973.³

These frantic regulatory changes were insufficient to stop the decline of the general attendance of the theaters: Korean movies (of bad quality on average) could only attract less Korean

³ Two types of “integrations” should be distinguished. Integration or consolidation between productions is related to the economies of size. On the other hand, integration between producer and importer is related to reward systems of import quota regime.

audience, leaving a lower number of imported foreign films (eventually increasing the value of foreign films). The Korean public largely deserted the theaters. Of course, as in all the developed countries, the emerging dominance of television in the 1970s made the survival of the cinema industry even more difficult (Jwa and Lee, 2006: 99; Oh, 2011).

Section 2. The screen quota: a “paper tiger”

In 1986, the import quota regime was abolished in accordance with the first Korea-US Film Agreement (its toxicity on the quality of Korean movies was not yet recognized). This decision left the screen quota adopted in 1990s as the most visible element of the Korean cinema policy. The screen quota imposes a mandatory number of days for exhibiting Korean movies. It is still implemented, and its limited relaxation in 2006 in the context of the Korea-US Free Trade Agreement negotiations has triggered a hot debate in Korea.⁴

It is essential to stress that Korea underwent two tectonic shifts of the highest importance for a “cultural” industry such as cinema.

- In 1987 (two years after the abolition of the import quota system), Korea shifted swiftly from the authoritarian regime to a stable democratic regime—this newly achieved democracy reverberating in the entire world with the 1988 Seoul Olympic Games.
- The first civilian administration and its successors have adopted a resolute “open door” approach looking at globalization as a fantastic opportunity to be grabbed by Korea, including in cultural matters (Gills and Gills, 1999: 201; Hsiung, 2001: 139). Such an approach is the exactly opposite to the fear-based fortress approach that has prevailed (still does) in many European film industries under heavy government’s intervention, such as in France.

The screen quota: what could it truly deliver?

A reasoned analysis of the screen quota impact on the Korean film industry must first clarify

⁴ The screen quota has an interesting feature which helps to understand why it is still part of the Korean cinema policy. It is consistent with the current rules in the world trade, an important point for Korea when it became a Member of the General Agreement on Trade and Tariffs (GATT) in 1967. As the screen quota has been used by developed countries—Britain was the first country to introduce it in 1927, and it generated a bitter dispute between the US and France from 1933 to 1946, it was authorized by Article IV of the GATT (and then by its heir, the World Trade Organization) with only very loose conditions for implementing this exception.

what the screen quota system can actually deliver. Contrary to what is often believed, a screen quota regime has not an unlimited capacity to protect domestic films. By merely preserving the number of days for showing domestic films (or limiting the number of days for showing foreign films reversely), it does not ensure domestic films to attract more audience during the screening days—it simply guarantees Korean films some “potential market access” to theaters.⁵ For transforming this potential market access into concrete audiences, domestic films must be more attractive than foreign films. As clearly stated by a ruling of the Constitutional Court of Korea (1995), the objective of the screen quota system is simply to guarantee “equal opportunity” for Korean films to be screened.

In addition to its limited protective power, the screen quota system triggers two in-built forces which are often overlooked. First, limiting the number of days for showing foreign films imposes higher constraints on the quality of the domestic film production that it would have been the case in the absence of a screen quota. This is because limiting the days left for showing foreign films strongly induces the importers of foreign films and the owners of domestic theaters to screen foreign movies with the highest potential of success in the domestic market at stake. In short, the tighter the screen quota, the stronger the incentives for importing high-quality foreign films. As the Korean screen quota regime was made more restrictive (165 days of screening Korean films) in 1981, Korean filmmakers accustomed to make low-quality “quickies” had suddenly to face the toughest foreign competitors in domestic market during the late 1980s-early 1990s—that is, the best Hollywood movies, precisely when Hollywood was, by far, the most innovative and successful film production center in the world.

Second, the screen quota does not generate incentives to deliver a diversified production or a large quantity of domestic films. In the late 1980s and 1990s, Korean filmmakers and theaters have had no other choice than to work on producing lucrative and attractive Korean films which could compete in the segments where Hollywood filmmakers were so successful. Focusing on small niches was not a promising option for building a profitable Korean film industry.

External and internal pro-competitive regulatory shifts

The real impact of a screen quota system depended critically on how these in-built forces could

⁵ A similar case exists in international trade where a better access to a market granted by a trade agreement does not guarantee that exports to this newly open market will grow.

develop, that is, how intense competition has effectively been in the Korean film market.⁶ The import quota regime of the 1960s-1980s was leaving a heritage of highly tightened relationships between Korean importers and producers—the theaters having a very limited role. After the abolition of the import quota regime, all these regulations have been progressively relaxed and/or eliminated.

Pro-competitive measures have been introduced on both the external front (trade related matters) and the internal front (the industrial structure of the Korean film industry *per se*). Unlike before, the theaters and *chaebols*, large Korean conglomerates emerged as important players in the industry. By “freeing” competition forces in the Korean film market, these regulatory reforms have made the screen quota regime a “paper tiger”—though emotionally highly charged in the public debate.

External (trade-related) pro-competitive measures

The abolition of the import quotas would have had little impact if Korean importers (or producers, depending on the period) would have been the only ones capable to import. That was still the situation until the early 1980s, when only Korean production companies were permitted to import films, and when import license was awarded on the basis of a number of screened or produced Korean films—ultimately, a cozy system not propitious to competition. Keeping untouched these provisions in a Korean film market subjected to the screen quota regime would have suffocated competition.

These constraints were first relaxed in 1984 with the separation of production and import firms. However, the decisive shift was made with the conclusion of two Korea-US Film Agreements in 1985 and 1988. The 1985 Agreement allowed US film studios to set up branch offices in Korea for the “direct” distribution of their movies in Korea (Shim, 2006). The 1988 Agreement eliminated cumbersome Korean regulations on the way to conduct business when distributing US films. These provisions ensured that the Hollywood movies with the best chances of success will be shown in Korean theaters—raising by the same token the quality bar for the competing Korean filmmakers.

⁶ “Free market” should be differentiated “free competition.” Under the screen quota system, it is hard to say both Korean and foreign films were in free competition, but there was no limit of foreign films to be imported and “screened” in Korea, thus we can say that both films were in a free market situation.

Internal (domestic industry-related) pro-competitive measures.

Another way to limit competition in the Korean film industry would have been to keep the regime of tight relations between Korean filmmakers and importers of foreign films, that is, the mandatory “consolidation” in large firms introduced in the 1960s. These regulations have also been loosened during the last years of the import quota regime. Over the time, the government enforced and repealed the regulations imposing the film industry to be consolidated under a few large companies, repeatedly. This inconsistent government policy made the film industry more unstable and hampered its sustaining development.

Furthermore, as Hollywood studios’ direct distribution was allowed in Korea, theaters appeared as a new power player in the industry. As Korean productions and companies did not have any more mandatory importer-exporter ties, theaters were the only source that Korean companies could manage for minimizing the effect of the direct distribution in facing Hollywood studios in domestic market. *Chaebols* expecting high returns of investment were more aggressively expanding their power by acquiring individual theaters and forming “theater franchises.”

The real impact of the screen quota: an economic analysis

The pro-competitive measures were clearly unleashing two major forces—one in distribution and the other in production—which have had the potential to undermine severely the screen quota limited protective capacity.

- First, the direct distribution of US films by US companies and the elimination of the “collective monopoly” on imports of foreign films by consolidated Korean firms have reduced the revenues of Korean film industry that they used to earn from distributing foreign films in Korea. This new business environment have changed the role of Korean distributors and theaters because it has induced them to partner with US companies in order to benefit from the lucrative Hollywood movies—further enhancing the distribution of foreign movies relative to Korean films.
- Second, at the same time, the “dis-integration” process of the old structure of Korean film industry has triggered the entry of new Korean operators in the film production: in the early 1990s, a number of large Korean conglomerates, led by Samsung and SK, entered the film industry through joint investments on Hollywood film projects (Russell,

2008). However, most of these endeavors failed. As a result, these firms redirected their investment towards Korean film production. They transformed the structure of the Korean film industry by introducing a modern—not government-engineered but market-driven—vertically integrated system of production covering financing, producing, distributing, exhibiting, etc. (Lee, 2005; Shim, 2006).⁷ As one could expect in newly competitive markets, many *chaebols* did not succeed and dropped out of the industry, particularly after the 1997 financial crisis. Only a few medium sized companies which later became major conglomerates in the industry, such as CJ and Lotte, stayed in the business and still have a key role.

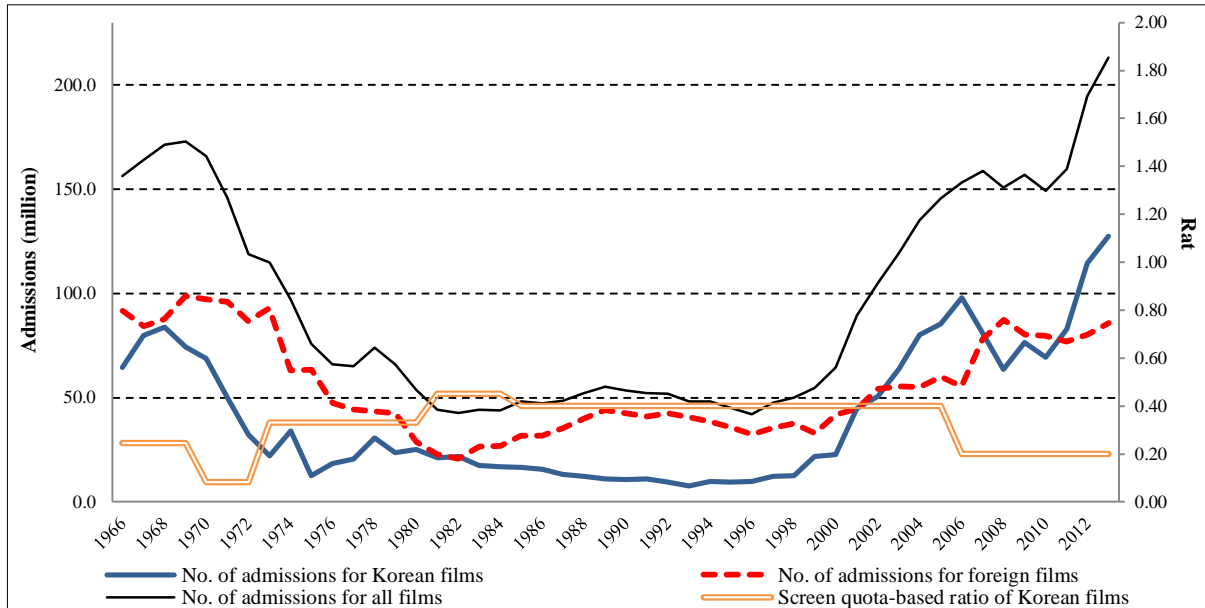
It is critical to realize that all these forces do not have an impact within the same time horizon. The distribution structure has been modified and renewed rapidly and deeply. By contrast, the emergence of the new Korean production structures has needed time all the more because it has required an intensive (and costly) learning process from the incoming firms. As a result, a reasoned analysis on the screen quota impact in the Korean film movie should be done within a long enough time horizon, as done in what follows.

The screen quota: no impact on the number of admissions

Contrary to what has been done for the import quotas, it is impossible to provide evidence that the screen quota has been well enforced since there is no data on the daily use of the screens. In fact, there is a debate in Korea on how well the screen quota regime has been implemented. Some observers argue that it was not actively enforced before 1993. However, as shown below, this debate has no impact on the conclusion which can be drawn from Figure 4 which provides the number of admissions by Korea theaters. Once again, as in the import quota case, admissions is the right indicator to look at when assessing the impact of a film policy on the attractiveness of the domestic film industry (not the number of films or not the number of screens). This indicator shows unambiguously that the screen quota has been a “paper tiger.”

⁷ Since American companies were able to directly distribute Hollywood films in Korea, *chaebols* looked for other “cash cows” such as distribution channel and sales rights of Korean films for home video and cable TV markets.

Figure 4. The screen quota: irrelevant in terms of admissions, 1980s to 2013



Note: based on author's calculations.

Data sources: Koreanfilm.org, <http://www.koreanfilm.org> (for 1966-2002), Korean Film Commission (various issues) (for 1999-2002), and Korea Film Council (various issues) (for 1998-2013).

First, the total admissions for Korean and foreign films exhibit a “U-shaped” curve which reaches its bottom plateau in the 1980s-1990s. The decline of the 1970s to early 1980s has been analyzed in the previous section: it is due to the low quality of the “quickies” generated by the import quota regime and amplified by the TV dominance all over the world. By contrast, the very late 1990s show a coming back in terms of total admissions (which is also observed in other OECD countries).

Second, focusing on the admission of foreign (US) films suggests two observations: 1) the increase in the number of the admissions of foreign films has started before the elimination of the import quotas (in 1982) and it reached a “plateau” very quickly after the Korea-US Film Agreements. 2) the number of admissions for foreign film increased again after 2000-2002, but more remarkably, it became smaller than the number of admissions for Korean movies—the signal that Hollywood-made movies have started to face the heat of successful Korean competitors (except during the years 2007-2009, see below). During this period, multiplexes (a complex of many movie theaters in one building) were introduced, and eventually kindled severe competition in the market.

Lastly, turning to the number of admissions to Korean movies, the first turning point occurs around 1998-2000 with an amazing rise of the admissions for Korean films. The fact that

admission rise is much higher than number of Korean films reflects the high popularity of Korean films, with a remarkable succession of huge (often unexpected) successes: *Shiri*, *JSA*, *Friend* and so on, known as “Korean blockbusters” with heavy investment.

These observations lead to a crucial conclusion: almost all the turning points observed after the elimination of the import quotas (1986) occurred while the screen quota was unchanged. This gives a first reason to doubt about the impact of the screen quota regime on the attractiveness of Korean movies. There is one exception though in 2007 which thus deserves close attention—all the more because this exception has been invoked in other OECD countries regulating tightly their cinema industries, notably France, for advocating in favor of the (re) introduction of a screen quota system.

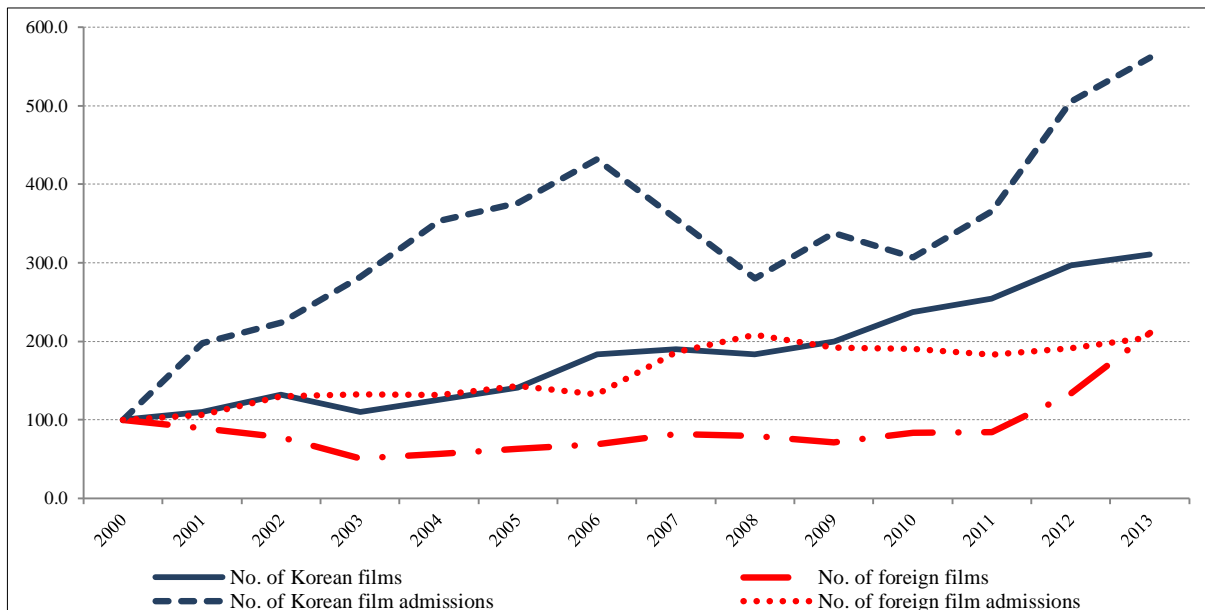
A closer look at the 2007 turning point

In July 2006, the screen quota was cut by half—from 146 days (since 1985) to 73 days, and the number of Korean admissions plunged in 2007-2009. This simultaneity has generated a hot debate in Korea all the more because several studies released before 2007 has claimed a positive effect of screen quota system on the success of the Korea film industry (Lee and Bae, 2004; Lee, 2005). However, none of these studies has covered the whole period nor taken into account the effects of the pro-competition regulatory reforms intensively—contrary to what has been done in this paper.

Does the 2006 decision suggest that the screen quota system may have had a positive impact on the Korean film industry? This question has two dimensions. Is there some time correlation between the 2006 decision and some subsequent evolutions of the Korean film market? If there is some time correlation, can it be assessed as a causality?

Figure 5 focuses on the years 2000-2013 in order to answer the first question—time correlation. This figure shows the indices (the year 2000 being set at 100) of the numbers of films and admissions for Korean and foreign movies.

Figure 5. A closer look at the 2006: turning point



Note: based on author's calculations.

Data sources: Koreanfilm.org, <http://www.koreanfilm.org> (for 1966-2002), Korean Film Commission (various issues) (for 1999-2002), and Korea Film Council (various issues) (for 1998-2013).

It shows only one substantial change over time: the sharp decrease of admissions for Korean movies in 2007-2010 followed by a strong catching up, whereas the other three curves follow broadly their pre-2006 trend. Does this unique change reflect some impact of the screen quota cut? Two arguments strongly suggest that it is not the case.

- First, the screen quota cut has no noticeable impact on the supplied number of Korean movies released: this curve fluctuates very similarly before and after 2006. If the screen quota cut would have been perceived as a threat by the Korean film producers, it should have triggered changes in the post-2006 supply of Korean movies—either a slower growth, or a more volatile growth, or both. Rather, it is “business as usual.”
- Second, the screen quota cut would have been clearly detrimental to the Korean film industry if it would have been accompanied by an increase in the admissions of foreign movies. Rather, these admissions are almost flat from 2008 till today, despite the amazing increase of foreign movies since 2011. In short, there were less admissions in the Korean movies, but no rush to the foreign movies that the screen quota cut could have favored by lowering the number of mandatory days for showing Korean movies.

To conclude: Korean filmmakers did not react to the screen quota cut and the Korean audience did not rush to watch foreign movies. These two observations do not leave much chance to the argument according to which the 2006 screen quota cut has had a noticeable impact on the

plunge of admissions for Korean movies. Once again, it seems safe to conclude that screen quota regime was an only “paper tiger.”

Of course, this conclusion leaves open the question on the possible causes of the 2007-2009 plunge in admissions of Korean movies. The economic crisis is not a plausible candidate: it would have probably hurt the admissions of Korean and foreign movies as well. It should, thus, be a (or several) reason(s) closely related to the film sector itself. What follows presents a couple of likely candidates:

- The first candidate is that there was simply a shortage of lucrative and attractive Korean “blockbusters” to please Korean tastes. The film industry is one of the most unpredictable in the world, and the success is never guaranteed. After all, the year 2007 was coming after six years of uninterrupted and massive successes (audience is four times larger in 2006 than in 2000) culminating in a record high market share (64 percent in 2006).
- The second candidate is that the Korean film market is facing an ongoing structural change, characterized by a desire for more varieties in terms of films. Between 2006 and 2013, the number of released foreign non-US films increased from 101 to 457 for almost the same number of admissions. This was made probably possible because the number of screens available in Korea has been multiplied by three (from 720 in 2000 to 2184 in 2013) thanks to the multiplexes. Supply of films could, thus, be highly diversified. This diversified countries of origin for foreign films and the stable admissions for foreign movie fits well with an ongoing structural change in the tastes of the Korean audience.

Of course, if correct, the second explanation reveals a new challenge for the Korean film producers.

Section 3. Subsidies

Has the Korean film industry benefited from subsidies? Actually, the 1963 Motion Picture Law allows subsidies for the film industry as a mean of promoting national and traditional cultures (Han, 2010). However, despite these provisions of the 1963 Motion Picture Law, the Korean policy of “cultural” policies at large (film, broadcasting, music, and the industries listed in Table 2) and the Korean film policy strictly speaking relied almost exclusively on import and

screen quotas. Figure 6 shows that various estimated subsidies to these industries (for details, see Table 1).

Figure 6. Estimated subsidies granted to the Korean film industries, 1999-2011



Data source: based on Table 1.

The early 1990s witnessed a progressive but deep change of mind in the Korean governments. In 1993, when “*Jurassic Park*” was released in Korea, President Kim Young-sam underlined the economic potential of the film industry in a famous remark—“*this movie is worth the sales of 1.5 million of Hyundai Sonata sedans*” (Song, 2012). The Korean government decided to reclassify the film industry from a “service” (a negatively connoted term in the mentality of these times in Korea as it was the case in Europe) to a “manufacturing sector”—a highly praised activity in the late 1990s Korea. This change opened access to two new kinds of support for the film industry. First, an increasingly affluent public budget opened the option of subsidies. Second, the recognition of the economic value of the entertainment industries as “commercial products” allowed filmmakers to tap bank loans for the first time as well as to get tax exemption—as manufacturers (Forbes 1994; Kim, 2000; Kim, 2007).

Subsidies: from negligible to low

Subsidies have emerged from insignificance only during the three last Korean Presidencies (1999-2012). Kim (2013) provides a detailed account of the whole Korean subsidy scheme

from 1974 to 2010. His data includes a substantial amount of subsidies unallocated to a specific cultural industry and excludes the “seat tax”.⁸ As a result, three alternative estimates of the total subsidies granted to the film industry have been used:

- Lowest estimate: subsidies unequivocally allocated to the film sector by Kim (2013).
- Medium estimate: subsidies unequivocally allocated to the film sector plus a share of the subsidies unallocated to a specific sector by Kim (2013); it is assumed that each specific sector receives a share of these unallocated subsidies proportional to its value added (that is, this share is defined as the value added share of the film industry in the cultural industries).
- Highest subsidies: they are defined as the sum of the medium estimate and the seat tax revenues as reported by Ministry of Culture, Sports and Tourism (2012). The seat tax amounts to 3 percent of each ticket price; it is collected for the “Film Promotion Fund” that goes to the Korean Film Council.

Table 1 presents these three alternative estimates for the years 1999-2011. It gives a very clear result: even the highest estimate is much lower than the level of subsidies in a European country like France. For instance, in 2011, the highest estimate of the subsidies granted to the Korean film industry amounts to USD106 million (roughly EUR82 million), which is less than 12 percent of the subsidies received by the French film industry the same year (EUR676 million) (Messerlin, 2014, more specifically Table 4).

⁸ The 3% tax is not charged on theaters that show 60% of the 365 days for animation, short films, and artistic films recognized by KOFIC.

Table 1. Subsidies granted to the Korean film industry, 1999-2011

	Subsidies granted to film industry (USD million, current)		
	Lowest estimation	Medium estimation	Highest subsidies
1999	5.73	5.94	
2000	10.55	12.49	
2001	12.11	12.66	
2002	9.87	13.21	
2003	13.25	17.00	
2004	23.53	27.04	
2005	31.97	36.23	
2006	26.99	32.10	
2007	27.08	32.32	119.16
2008	18.66	22.82	92.38
2009	25.80	31.90	94.37
2010	29.03	37.02	102.61
2011	24.29	33.03	106.28

Note: 1. based on author's calculations, 2. Seat tax is calculated and analogized, based on each year's number of admission and total seat tax of 2012 obtained from Ministry of Culture, Sports and Tourism (2012).

Data source: Kim (2013).

That said, Korean subsidies could be small simply because the Korean film industry is small compared to the European ones. Information on the value added of the various cultural industries is provided in Table 2 which suggests two conclusions:

- Today, the Korean film industry is as big as the biggest EU Member States' film industries. Its value added amounts to USD3.4 billion (roughly EUR2.6 billion) which is roughly the size of the film industry “made in France” (EUR2.7 billion [Messerlin, 2014]). But, more remarkably, the Korean film industry seems bigger than the “truly” French film industry since there are not a lot of foreign investment in Korean movies and since the admission share of foreign movies is much lower in Korean theaters than the corresponding share in French theaters—an incredible achievement when one recalls the situation of the Korean film sector in the early 1950s.
- Depending the estimate of the subsidies used, the “subsidy rate” (subsidies as a share of value added) ranges from insignificant (less than 1 percent) to very low by European standards—roughly 3 percent, to be compared to more than 30 percent in the France.

Table 2. Value added, subsidies, and subsidy rates in Korean cultural industries, USD million

	Subsidies		
	Value added	Total amount	Ratio (%)
Broadcasting	11,517	45	0.39
Cinema [a]	3,429		
Lowest		24	0.71
Medium		33	0.96
Highest		106	3.10
Music	3,396	1	0.04
Game	10,198	16	0.15
Comics	808	3	0.37
Animation	555	4	0.79
Characters	6,987	2	0.03
Press	n/a	28	
Publishing	24,084	14	0.06
Others	n/a	35	
Non-Allocated	n/a	136	
Total	60,974	309	0.51

Notes: 1. based on author's calculations, 2. [a] for the definition of lowest, medium, and highest, see Table 1.

Sources: For value added (Korea Creative Content Agency [KOCCA], 2014) and for subsidies (Kim, 2013).

Tax deductions

All these remarks deserve a *caveat*: the above estimate of subsidies does not include tax deductions. The Korean government offers various tax exemption schemes for publishing, broadcasting, and film sectors. However, these schemes are subjected to many conditions. First, only small and medium sized enterprises (SMEs) in these sectors are eligible. Second, these SMEs have to meet strict conditions of size: less than 1,000 employee on average, an equity capital lower than KRW10 billion (EUR7 million at 2011 exchange rates), total sales lower than KRW10 billion (EUR7 million) and/or assets lower than KRW50 billion (EUR34 million). Third, eligible SMEs have to comply with a crucial “independency” condition: more than 30 percent of securities issued should not be owned by the largest shareholder. Fourth, the SMEs should not be located in Seoul Metropolitan area, a serious constraint for cultural products which often need a large market nearby (Ministry of Culture, Sports and Tourism, 2010). Last but not least, once a company is qualified to be a SME, it is treated as a SME for four years. After this period, there is a reevaluation procedure.

Once combined, all these conditions strongly suggest that there are not many SMEs which

could benefit from the tax deduction system, hence that the subsidy equivalent generated by the tax exemption regime could not be significant. In short, the current tax deduction regime is incapable to change substantially the subsidy rate calculated above. In fact, the available estimate is that only 15.9 percent of SMEs can benefit from this scheme (Ministry of Culture, Sports and Tourism, 2010). And, many Korean organizations and scholars have raised their voice to increase the tax exemption regime for film industry (Kim, 2000; Do, Park, and Kim, 2005; Ministry of Culture, Sports and Tourism, 2010).

Conclusion

The Korean film industry provides a remarkably dynamic and successful story since the late 1990s. This paper comes to the conclusion that this success cannot be attributed to protective policies—import and screen quotas, subsidies, and tax rebates. Contrary to many existing studies, this conclusion relies on robust data and a rigorous analysis incorporating a historical long-term perspective.

Movies are different from other commodity and industrial goods. But, the movie industry also faces supply and demand, as any other industry. Indeed, this paper has underlined various industrial and commercial factors: pro-competition provisions and market-oriented policies have been more crucial for the Korean cinema success than protective cultural policies. This context makes particularly interesting the role of business, notably large enterprises such as *chaebols*.

These large companies have successfully challenged the Hollywood-type blockbusters, despite the screen quota cut and other changes in the business environment. Their proactive responses to maximize benefits in a context of domestic and international changes have tended to deliver competitive cultural products in the end. The real cultural diversity can be achieved and enriched when there are many competitive cultures, rather than many uncompetitive cultures in the world.

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Appendix

Year	Tax/EXR	Laws	Import quota	Screen quota	External measures	Internal measures	Integration	Sector Events
1954	Taxation exemption for film industry							
1958			Set-up of an film import quota (IQ) on foreign films based on a reward system					
1962		Enactment of Motion Picture Law (MPL)				Registration system of film producers		
1963		MPL-v1	Confirmation of the IQ based on a reward system			Reinforcement of registration system IQ licensed to the most excellent films	Integration: producer-exporter-importer	
1964	Devaluation of Korean won: from ₩130 to ₩255 to US\$1							
1966		MPL-v2	IQ system: 1 foreign film imported for 3 Korean films released	set up of a screen quota (SQ) system: more than 90 days of mandatory screening of Korean films		Relaxation of registration system		
1970		MPL-v3	Confirmation of the IQ ratio of 1:3.	SQ: more than 30 days of mandatory screening		- Independent film productions allowed - Establishment of Union of Korean Film Promotion (UKFP, 영화진흥조합)	Disintegration: producer-exporter	
1971	Devaluation of Korean won: from ₩328.2 to ₩370.8 to US\$1 (13%)							
1973		MPL-v4 Film Policy Measure (영화시책) re-introduced	introduction of a modest flexibility in the IQ ratio "if needed"	SQ: more than 121 days of mandatory screening		Establishment of Korean Motion Picture Promotion Corporation (KMPPC, 영화진흥공사), replacing UKFP	Approval system of film production Integration: importer-producer	
1974	Devaluation of Korean won: from ₩399 to ₩484 to US\$1	Film Policy Measure (영화시책) introduced		Set up of the "sequential screening"		Establishment of Korean Film Archive (한국영상 자료원)		
1979		Film Policy Measure repealed						
1980	Devaluation of Korean won: ₩580 to US\$1							
1981				SQ: more than 165 days of mandatory screening				
1984		MPL-v5			Liberalization of importing foreign films		Disintegration: production and import companies	
1985			Abolishment of IQ system	SQ: more than 146 days of mandatory screening, with 20 days of cut, if needed and sequential screening	1st Korea-US Film Agreement			
1986		MPL-v6			Direct distribution of Hollywood companies allowed			
1987		MPL-v7						

1988					2nd Korea-US Film Agreement		First direct distribution of a film (Fatal Attraction) by a Hollywood company
1989		MPL-v8					
1992						First chaebol (Samsung) financing film, <i>Marriage Story</i> (결혼이야기)	
1993		MPL-v9					- The lowest market share record of Korean films, 15.9% - First film over a million viewers, <i>Scopyeonje</i> (서편제)
1995		Repeal of MPL					Launching of cable television channels
1996		Enactment of Film Promotion Law (FPL, 영화진흥법)		SQ: more than 146 days of mandatory screening with 40 days of cut, if needed			The 1st Busan International Film Festival
1997							Opening of Namyangju Cinema Complex outside of Seoul
1998					1st opening to Japanese culture		
1999		Enactment of Basic Law for the Promotion of Cultural (문화산업진흥기본법)			2nd opening to Japanese culture	Establishment of Korea Film Commission (영화진흥위원회), replacing KMPPC	<i>Shiri</i> (쉬리) kicked off commercial boom
2000					3rd opening to Japanese culture		
2001							Korean films market share tops 50%, boom in overseas sales, <i>My sassy girl</i> (엽기적 그녀), the first mega hit Korean movie in East Asia
2002							The first Cannes International Film Festival laureate, <i>Chwihwaseo</i> (취화선), Best Director Prize
2004							- First 10 million tickets sold films, <i>Silmido</i> (실미도) and <i>Tae Guk Gi</i> (태극기) - <i>The Oldboy</i> wins Grand Prix at the Cannes Film Festival
2006		Motion Pictures and Video Products Act		SQ: more than 73 days of mandatory screening			- The highest market share record of Korean films, 63.6% - The best box office hit of Korean film, <i>The Host</i> (13,019,740 visitors)
2007					Free Trade Agreement (FTA) between Korea and the U.S.		
2010							The best box office hit film in Korea, <i>the Avatar</i> (13,624,328 visitors)