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The effects of protection in cultural industries: the case of the Korean film policies

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This paper assesses whether Korean film policies, particularly protectionist ones, have been instrumental in the success of the Korean film industry. The conclusion is, surprisingly at a first glance, that protectionist policies have played an insignificant role. First, the import quota regime (1956–1986) limited the number of films to be imported, but not the number of Korean audience to see these imported films. Furthermore, the import quota system strongly induced Korean filmmakers to produce bad quality movies and theaters to avoid showing Korean films. Second, the screen quota system, from 1966 until present, has not been effective because imposing a mandatory number of days for screening Korean movies does not ensure that the domestic audience will watch these movies. Finally, the subsidy policy was barely noticeable before the late 1990s and is now too late and too limited to be credited for any significant impact on the success of the Korean film industry which began from the early 1990s. The results of this paper are robust enough to suggest to policymakers in other countries to review their own policies that advocate merely protectionism as a way to make a more attractive national culture.

Keywords: Korea; film industry; import quotas; screen quotas; subsidy

1. Introduction

The South Korean film industry offers a fascinating story: its wide success was largely unexpected after so many hardships. The period of Japanese occupation (1910–1945) imposed strict censorship and obstacles to the growth of the Korean film industry, culminating in a complete ban of Korean-speaking films in 1942 (Kim 2007). When South Korea (hereafter 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,[1] making the Korean audience familiar with the Hollywood-style of films (Shin 2008, p. 43). During the Korean War (1950–1953), many Korean film directors worked for or under the US Army which provided Korea with modern film

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technologies and equipment (Paquet 2007, Song 2012). After the war, the Korean film industry rose from the ashes. Although, the 1950s and 1960s were promising years, huge problems were witnessed from 1970s to the early 1990s. And it is these difficulties that are analyzed in this paper.

It is only in the early 1990s that the Korean film industry began to blossom. Since then, it has shown impressive success in the domestic market: Korean films enjoy 54% of the market share on average over the last decade, with annual record peaks between 60 and 65%. More remarkably, Korean film production has become internationally competitive and has won prizes at renowned international film festivals: *Thirst* (Jury Prize at 2009 Cannes Festival), *Poetry* (Best Screenplay Award at 2010 Cannes Festival), *Night Fishing* (Golden Bear for Best Short Film at 2011 Berlin Festival), and *Pietà* (Golden Lion at 2012 Venice Festival). In short, the Korean film industry has become one more additional dimension of the '*Hallyu*' or Korean Wave, and to a newly hip identity, Korea as an emerging 'Asia's cultural powerhouse' (Chua and Iwabuchi 2008, Time 2012, Parc and Moon 2013).

In such a context, the case of Korea's film policy offers a story of great interest for the design of cultural policies. Since the 1960s, most Korean governments have actively intervened in order to promote and protect Korean culture – a line not much different from the one adopted in certain European countries, such as France. Even today, President Park Geun-hye has highlighted the importance of 'creative economy,' a combination of industry, business, and culture. Thus the successful renaissance of the Korean film industry raises the following question: what kind of lessons can countries, especially those with declining film industries, learn from Korea's experience with its film policy?

This paper aims to answer this question. It begins by describing briefly the main protectionist policies. Next it focuses on providing robust and fact-based assessments of the results produced by the aforementioned policies. In addition, these assessments have been put forward with a long term perspective since it can be argued that these policies have either immediate or lagging effects. These two points differentiate this paper from other existing studies on this topic, which tend to focus on the political statements and the policy instruments without too much attention on the causes and effects, and often over short span of time. The main conclusion of this paper is quite challenging: most of the successive Korean film policies have not been effective. This conclusion leads then to two questions: what are the key factors to the success of the Korean film industry? And how has Korea enhanced these key factors?

This paper is composed of three sections corresponding to three periods and each of them focuses on a key protectionist policy instrument. Section 2 focuses on the 'import quota' regime which dominated Korean film policy from the early 1960s to 1986. Section 3 turns to the 'screen quota' system which has been the most visible element of Korea's policy since 1987 but has lost its predominance since July 2006. Section 4 examines the subsidy policy, the most frequently discussed issue in Korea nowadays, which emerged in the late 1990s when Korea was able to afford to consider such an instrument. Thus, the fact that the Korean government used various instruments makes it even more interesting to analyze its film policy.

2. The import quotas (1959–1986)

The first important protectionist measure was instituted by the Korean government in 1958. It limited the number of foreign films imported into Korea per year – the so called 'import quotas.' Initially, the import quota system was based on a reward system: only successful companies that produced or exported Korean movies could import foreign films. The rationale was to create a self-sustaining virtuous system; exporting films would require high-quality Korean movies, and the foreign currency earned by exporting these good Korean films could be then reinvested into the Korean film industry. As for any other sectors of the Korean economy, a good export performance in the film industry was perceived as a sign of 'excellence' – the only legitimate source for having the right to import (Jwa and Lee 2006, p. 95).[2]

This initial 'high-quality' reward system was quickly abandoned because of endless disputes on how to define 'quality.' 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. Later, this import quota regime was amended no less than four times until its abolition in 1986.

2.1. The number of films under control, but the number of admissions out of control

This quantity-based import quota was well enforced: the annual share of foreign films in the total number of films screened in Korea was roughly 25%, that is, one foreign movie divided by four (4 = 1 + 3) movies. Yet, assessing the effectiveness of the import-quota policy requires a look further than mere compliance to the import quota. This is because the key criterion for assessing the success of any film policy is the number of admissions that domestic films attracted, not the number of domestic films produced.

The number of admissions for Korean films reveals a much darker picture. The annual admission share for foreign, mostly US, films in Korea was much higher than 25%, the share imposed by the import quota. It was 62.3% on average from 1965 to 1986 and has never been below 51.1% (1968), with a couple of annual peaks higher than 80% (1973 and 1975).[3] The reason for such a failure is simple; foreign films attracted a larger domestic audience than Korean films did. In short, the import quota system was aimed to protect the Korean film industry and it was well enforced, but it was unable to increase the number of admissions for Korean films.

2.2. Deteriorated quality of Korean films

The import quota system was not only unrelated to promoting admissions for Korean films: it has also brought a largely unexpected and strongly negative impact on the Korean film industry. The anticipated virtuous circle of 'high quality production, hence high earnings from exports, thus high investments in domestic film production' did not emerge at all. Far from the initial intention, the quantity-based reward system induced Korean filmmakers to rapidly produce low-quality movies and to screen and export them – nicknamed ‘quota quickies’ – in order to have the rights to import foreign movies, particularly those that were successful abroad and would easily guarantee high profit returns in Korea. This fact, again, emphasizes why the number of admissions is the key criterion for assessing the success of any film policy.

Low quality Korean quota quickies could not be exported, foreign currency earnings were reduced, leading to, less capital to produce Korean films, hence less import of foreign films. The import quota measure did not protect the Korean film industry, contrary to its original purpose, but it rather put the whole industry in a disastrous situation in the end. For example, from 1980 to 1986, the last years of the import quota regime, only seventeen Korean films per year were exported, compared to almost eighty during the 1970s. Hence, the whole system fell into an unintended vicious circle.

This toxic impact of the import quota regime on the Korean film industry is well captured by Figure 1. It shows a striking contrast between the two periods: the years under the import quota regime (marked with a thick solid line) and those after abolition of the import quota (no line). When the import quota regime was imposed, the admission share per foreign movie was, on average, much higher than the admission share per Korean movie. For instance, one foreign film attracted, on average, 2.5 times more admissions than one Korean film in 1980 (the lowest record) and 13.2 times higher in 1975 (the highest record) (see Figure 1).

It is remarkable to point out the fact that when the import quota regime was abolished at the end of 1986, this anomaly vanished almost overnight, leaving little doubt about the causality. Even more remarkably, Figure 1 shows that the emergence of a successful Korean film industry in the late 1990s, characterized by the complete reversed ratio of admission shares between Korean and foreign movies since the early 1990s: one Korean film attracted, on average, the same admissions number of 2.1 foreign films.

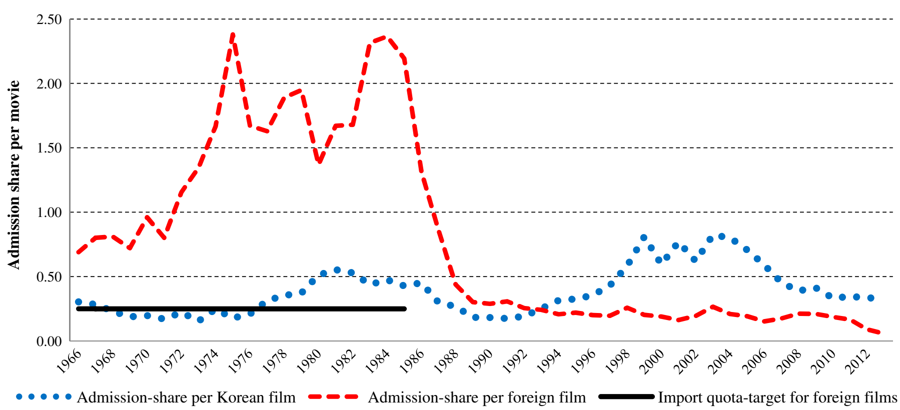

Figure 1. The import quotas: highly toxic.
Notes: 1. Based on author’s calculations; 2. The average admission share per (Korean and foreign) movie is the share of admission for Korean/foreign movies in total admissions divided by the number of Korean/foreign movies for a given years.
Sources: Koreanfilm.org (for 1966–2002) and KFC (various issues) (for 1999–2013).

2.3. The 'industrial policy' made things worse

It is noteworthy that other industrial policies accompanied with the import quota put the Korean film industry in unexpected trouble. In order to produce quality films, the government pushed Korean film companies toward integration.[4] These industrial policy-type regulations aimed at 'integrating' Korean film production companies made things worse because the few consolidated companies had little incentive to compete in such an oligopolistic situation (Jwa and Lee 2006, pp. 99–100). The Korean government tried to address these issues, but it did not so in a time-consistent fashion.

In short, these inconsistent regulatory changes were unable to prevent the collapse of the Korean film industry. Korean movies, of bad quality on average, could only attract less of an audience; thus the revenue became very modest. Profits from screening foreign films were not reinvested in the domestic film industry. As a result, the total number of films in Korea significantly dropped since the decreasing number of Korean films forced a decrease in the number of foreign films imported. Simply, the Korean public largely deserted the theaters. In addition, as in all developed countries, the emerging dominance of television in the 1970s made the survival of the film industry even more difficult (Jwa and Lee 2006, Oh 2011).

3. The screen quotas (1966–present)

The screen quota regime was introduced in 1966 with the second amendment of the Motion Picture Law. In 1986, the import quota regime was abolished, as required by signing of the first Korea–US Film Agreement. The screen quota regime became then the key protectionist element of the Korean cinema policy. It imposed a mandatory number of days for screening Korean movies, namely 146 days from 1986 to 2006. This number was cut to 73 days following the Korea–US Free Trade Agreement negotiations in 2006. As the dominant view in Korea was that the screen quota had been effective for protecting the Korean film industry, this 2006 screen quota cut triggered widespread fear that this decision would endanger the future of the Korean film industry.[5]

It is essential to stress that Korea underwent a very important tectonic shift for a 'cultural' industry such as films when the screen quota became the only central protectionist measure. Since 1987, successive Korean governments have adopted a resolute 'open door' approach toward looking at globalization as a fantastic opportunity to be grabbed by Korea, including in cultural matters (Gills and Gills 1999, Hsiung 2001). Such an approach can be contrasted with the prevailing protectionism in many European film industries where there is heavy government intervention, notably in France.

3.1. The screen quotas: what can it truly deliver?

For an in-depth analysis of the screen quota impact on the Korean film industry, it is necessary to clarify what the screen quota system can actually deliver. Contrary to what is often believed, the screen quota regime does not have a strong capacity to protect domestic films. It merely sets the number of days for showing domestic films (or limiting the number of days for showing foreign films); it does not ensure increased admissions to domestic films during the screening days. Rather, it simply guarantees Korean films some 'potential market access' to theaters.[6] The CCK (1995) concurs with this clarification by stating that the objective of the screen quota system is simply to guarantee that Korean films have 'equal opportunity' to be screened.

In addition to its limited protectionist power, the screen quota system confronts a systemic contradiction: (1) a more restricted number of days for showing foreign films created tougher competition for the domestic film producers, since the importer selected to bring in foreign movies with the highest potential of success in the domestic market; (2) the owners of domestic theaters screened the best among imported films in order to maximize their profits within the limited number of days. To sum up, the tighter the screen quota system, the stronger the incentives are for importing and screening higher-quality foreign films making it harder for domestic film producers to compete and match this standard.

3.2. The screen quotas: no notable positive impact

Contrary to the case of import quotas, it is hard to provide evidence of how well the screen quota system had been enforced since there are no data on the daily use of the screens. Thus, this study utilized the number of films released and admission numbers, for both Korean and foreign films, vis-à-vis the screen quota ratio (see Figure 2). In Figure 2, the number of admissions shows clearly that the screen quota has had no positive impact on the domestic film industry. The total admissions for Korean and foreign films exhibit a 'U-shaped' curve, which can be divided into three different periods: (1) decline in the 1970s–1980s; (2) stagnant in the 1980s–1990s; and (3) increase since the 1990s.

First, the decline from the 1970s to early 1980s has been analyzed in the previous section: it is due to the low quality of the quota quickies generated by the import quota regime and amplified by distorted industrial policies as well as by the domination of television across the world. Second, during the stagnant period

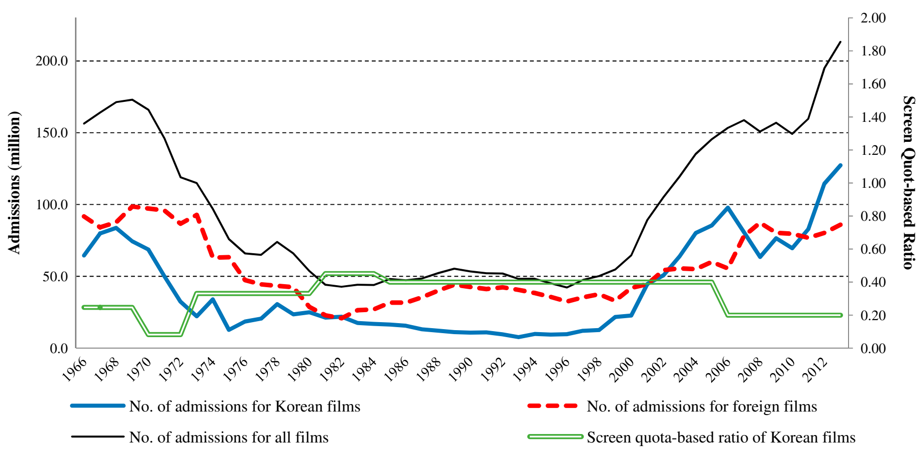

Figure 2. The screen quotas: irrelevant in terms of admissions, 1980s to 2013.
Note: based on author's calculations.
Sources: Koreanfilm.org (for 1966–2002) and KFC (various issues) (for 1999–2013).

(1980s–1990s), the screen quota system became the only protectionist measure for the Korean film industry. However, as shown in Figure 2, the number of admissions for Korean films was decreasing. Moreover, Figure 2 highlights that an increase in the number of foreign film admissions began before the elimination of the import quota system.

Lastly, by contrast, the very late 1990s shows a boom in terms of total admissions; but the rise began from 1992 with the success of *the Wedding Story,* the first 'planned film' – Korean companies copying Hollywood system of whole film producing procedure, thus from manufacturing to distribution. Regarding the number of admissions to Korean movies, the first turning point occurred around 1998–2000 with an amazing rise in the admissions for Korean films in total. The fact that the admission increase is much higher than the increase in the number of domestic films reflects the high popularity of Korean films, with a remarkable succession of huge, often unexpected, successes: *Shiri, JSA, Friend* among others. Such films were known as 'Korean blockbusters' owing to their heavy investment. The number of admissions for foreign films increased again after 2000. However, it is remarkable that this increase is much smaller than that for Korean movies, reflecting the fact that Hollywood movies began to face the heat of successful Korean competitors.

All these observations lead to a crucial conclusion: almost all the turning points observed after the elimination of the import quota (1986) occurred while the screen quota system was maintained. This conclusion raises serious doubts about a notable impact of the screen quota regime on the attractiveness of Korean movies. In order to explain the contrasting difference under the screen quota regime in the last two periods, some observers have argued that it was not actively enforced before 1993 (CDMI 2000, Lee and Bae 2004). However, there is still no consensus on this observation. Furthermore, what requires strong attention is the critical change before and after these last two periods, namely reforms in business in the history of the Korean film industry.

3.3. The influential factors: pro-competitive regulatory reforms

The real impact of the screen quota system has depended critically on intense competition in the Korean film market. The import quota regime of the 1960s–1980s left a heritage of highly tightened relationships between Korean importers and producers – with a very limited role for the movie theaters. After the abolition of the import quota regime (external reform), all these regulations were progressively relaxed and/or eliminated (internal reforms).

The internal constraints were first relaxed in 1984 with the liberation of the ties between production and import companies. However, the decisive shift was made with the conclusion of the 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 method for conducting business when distributing US films. These provisions ensured that Hollywood movies, with the best chances of success, would be shown in Korean theaters.

These internal reforms were crucial since the abolition of the import quota system (external reform) would have had little impact if Korean importers (or producers, depending on the period) were the only ones allowed to import films.

Ultimately, keeping these provisions in a Korean film market subjected to the screen quota regime would have been enough to suffocate competition. In sharp contrast, these internal reforms allowed, unlike before, theaters and *chaebols* or the large Korean conglomerates, to emerge as important players in the industry. By 'freeing' competition forces in the Korean film market, internal regulatory reforms made the screen quota regime ineffective – though still an emotionally charged issue in the public debate.

Finally, as Hollywood studios were allowed direct distribution of films in Korea, movie theaters emerged as a new power player in the industry. As Korean production companies did not have any more mandatory importer–exporter ties, theaters were the only source that these companies could manage in order to minimize the effect of the direct distribution by Hollywood studios in the domestic market. *Chaebols* expecting high returns of investment were more aggressive in expanding their power by acquiring individual theaters and forming 'theater franchises.'

3.4. The critical role of business

The pro-competitive measures were clearly unleashing two major forces – one in distribution and the other in production – which had the potential to undermine severely the screen quota's limited protectionist capacity. First, the direct distribution of Hollywood films by US companies and the elimination of the 'collective monopoly' on the importing of foreign films reduced the revenues that Korean film production companies earned from distributing foreign films in the domestic market. This new business environment changed the role of Korean distributors and theaters because it induced them to partner with US companies in order to benefit from lucrative Hollywood movies.

Second, at the same time, the 'disintegration' process of the old structure of the domestic film industry triggered the entry of new Korean participants. In the early 1990s, a number of *chaebols*, led by Samsung and SK, entered the film industry through joint investments for Hollywood film projects (Russell 2008). However, as most of these endeavors failed, the *chaebols* redirected their investment toward Korean film production.

By doing so, from Hollywood studios, *chaebols* learned a modern and vertically integrated system of production; covering financing, producing, distributing, and exhibiting movies. They transformed the structure of the Korean film industry by introducing a system which is not government-engineered but market-driven (Lee 2005, Shim 2006).[7] As one could expect in this newly competitive market, 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 film industry, such as CJ and Lotte, persevered and continue to play a key role.

It is critical to understand that all these forces did not have an impact within the same time frame – this is why a historical analysis over a long period is crucial for a proper analysis. The distribution structure has been modified and renewed rapidly and deeply. By contrast, the emergence of the new Korean production structures needed more time because it required an intensive and costly learning process from the incoming firms.

3.5. A closer look at the consequences after 2006

In July 2006, the screen quota was cut by half, from 146 to 73 days and the number of admissions for Korean films plunged during 2007–2009. The simultaneity of these two events generated a hot debate in Korea because several studies released before 2007 projected that there would be a positive contribution of the screen quota system to the success of the Korean film industry (Lee and Bae 2004, Lee 2005). However, these studies focused only on a few years and they largely ignored the long-term effects of the pro-competition regulatory reforms, unlike what has been undertaken in this paper.

Is there any evidence that the screen quota cut in 2006 had a detrimental impact on the Korean film industry? For clarity sake, Figure 3 focuses on the years 2000–2013. It shows the indices of the numbers of films and admissions for Korean and foreign movies, with the values for the year 2000 being set at 100. Interestingly Figure 3 shows that only the admissions for Korean films had a dramatic change, thus a sharp decrease. This decrease in 2007–2009 is followed by a strong catch up. The other three curves follow broadly their pre-2006 trends. Does this unique change reflect some impact on 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 number of Korean movies produced. 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 drastic changes in the post-2006 supply of Korean movies – either a slower growth, or a more volatile growth, or both. Rather, the curve reflects a ‘business as usual’ pattern.

Second, the screen quota cut would have been clearly detrimental to the Korean film industry only if the number of decreased admissions for Korean films would have led to a similar (or stronger) increase of admissions for foreign films. Rather, these admissions for foreign films are almost flat from 2008 till the present, despite the amazing increase in the number of foreign movies imported and screened. In

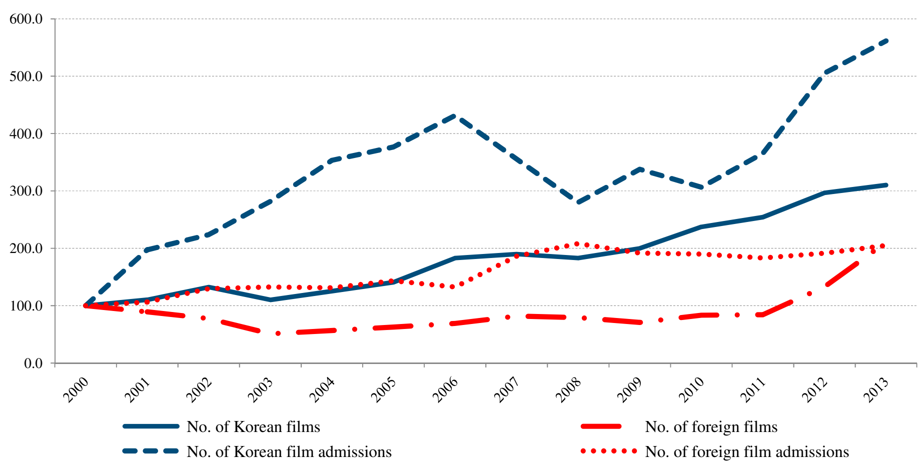

Figure 3. A closer look at the consequences after 2006.
Note: based on author’s calculations.
Sources: Koreanfilm.org (for 1966–2002) and KFC (various issues) (for 1999–2013).

short, there was no change in the supply of Korean movies and no rush of Koreans to watch foreign movies.

These two observations do not leave much chance to the argument that the 2006 screen quota cut had a noticeable impact on the plunge of admissions for Korean movies, particularly from 2007 to 2009. Of course, this conclusion leaves open the question on the possible causes of the 2007–2009 plunge in admissions for Korean movies. The world economic crisis is not a plausible candidate: it would have also hurt the admissions of foreign movies as well. It should, thus, be a (or several) reason closely related to the Korean film sector itself. What follows presents a couple of likely candidates.

The first possible explanation is that there was simply a shortage of lucrative and attractive Korean 'blockbusters' to please domestic tastes. Despite no noticeable impact on the number of Korean films produced after 2006, there has been a sharp decline of investments in the production of Korean films from 2006 to 2007, after the considerable increase in investments from 2000 to 2006 (KFC 2009). The film industry is one of the most unpredictable in the world, and success is never guaranteed, particularly when the business environment is in the midst of radical changes, such as screen quota cut. Thus, Korean investors in the film industry tended to reduce their investment in order to avoid any possible risk.

A second possible explanation is that the Korean film market is facing ongoing structural change, characterized by a desire for more variety in terms of themes, genres, and country of film' origins. Between 2006 and 2013, the number of released foreign non-US films increased from 101 to 457 for almost the same number of admissions in total. This was made possible because the number of screens available in Korea multiplied by three (from 720 in 2000 to 2184 in 2013) thanks to the emergence of multiplexes. The supply of films could, thus, be much more diverse. This diversity reflects the wider range of origin for foreign films, particularly as the number of foreign films increased modestly (see Figure 3). The stable admissions for foreign movies fit well with an ongoing structural change in the tastes of the Korean audience. If correct, this second explanation would suggest new challenges ahead for Korean film producers – an issue that goes beyond the scope of this paper and would require further study.

4. Subsidies (the late 1990s–the mid-2010s)

The Motion Picture Law adopted by Korea in 1963 allowed subsidies for the film industry as a means of promoting national and traditional culture (Han 2010). Despite this provision, Korean film policy relied almost exclusively on the import and screen quota systems until the late 1990s, and it was only recently that Korea seriously engaged in subsidy schemes. Before conducting an in-depth analysis of Korea's subsidy regime, several important preliminary points should be mentioned.

First, Korean governments have shown two fundamentally different approaches in cultural matters: as a strict regulator before 1993 and as an encouraging supporter afterwards. The turning point occurred in 1993, when *Jurassic Park* was released in Korea. At the time, 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 Hyundai Sonata sedans' (Song 2012). Subsequently, the film industry was reclassified from a 'service' industry to a 'manufacturing sector.' This change opened access to two new kinds of support for the film industry: (1) an increasingly affluent public budget opened up the potential for subsidies and (2) the recognition of the entertainment industry's economic value as a 'commercial product' allowed filmmakers to tap bank loans for the first time as well as to benefit from tax exemptions as manufacturers (Forbes 1994, Kim 2000, 2007).

Second, there are two different ways of granting subsidies: directly and indirectly. For example, the French government grants most of its huge subsidies directly to filmmakers (Messerlin 2014, Messerlin and Parc 2014), whereas the Korean government has essentially subsidized infrastructure or distribution channels (Messerlin and Parc 2014, Parc 2014). These indirect subsidies may have accelerated the success of the Korean film industry in the lagging years. Many scholars have asserted the negative effects of direct subsidies, while indirect subsidies may enhance the competitiveness of a film industry, as in the case of Korea (Pager 2011, Messerlin and Parc 2014, Parc 2014). In this regard, further studies should take into account these different ways of allocation for subsidy related research.

Third, the notion of subsidy should be well defined. For instance, MCST (2010a), KOFICE (2012) and Kwon and Kim (2014) treated the government's financial support to concerts and festivals featuring well-known idol groups, musicians, actors, and actresses as subsidies. However, this kind of financial support is far from promoting or protecting 'weak' cultural industries – the alleged objectives of subsidy schemes in these sectors. Indeed, a question can be raised: who is promoting whom? Do Korean governments promote successful musicians and actors? Or is it the well-established musicians and actors who promote the Korean government? Choi and Kim (2014) and Oh and Lee (2014) insisted that the Korean government is the one that has taken advantage of the Korean stars for promoting the 'national brand,' Korea.

Last but not least, subsidies in cultural industries, such as films, broadcasting, music, computer games, animation, press, and publishing, have been very modest until the late 1990s (Kim 2013). After this point, indirect subsidies increased substantially in the mid-2000s. However, it is important to stress that this substantial increase of indirect subsidies was actually induced by the sudden success of certain Korean cultural contents, such as the Korean blockbusters *Shiri* and *JSA* as well as the famous drama, *Winter Sonata*. (Parc and Moon 2013). In other words, the emergence of these Korean cultural contents preceded the increase of subsidies. Moreover, it is only the film, music, and game sectors that have achieved prominent success, not the other sectors. In explaining this, Lee (2012) and Kwon and Kim (2014) asserted that the backwardness in certain sectors should also be associated with the government's cultural promotion policy. This fact means that subsidy per se is not the only core element of the success of a specific industry and this argument should be further analyzed.

What follows leaves these important questions aside, and the main focus of this paper rests on the issue of the Korean subsidy magnitude and its likely impact on the success of the Korean film industry up until the present.

4.1. Subsidies: belated and relatively low

Kim (2012) provides a detailed account of the whole Korean subsidy scheme based on public budgets from 1974 to 2011, but excludes the 'seat tax.'[8] By contrast, this paper covers the seat-tax based subsidies as reported by MCST (2012), in addition to the subsidies examined by Kim (2012). This addition is critical because after

2007 the seat-tax subsidies constituted the bulk of all the current subsidies, roughly two-thirds.

Some Korean scholars have argued that the huge amount of subsidies to the Korean film industry was crucial for its success. This argument is not very convincing for two reasons. First, as subsidies substantially increased only after the late 1990s and above all after 2000s as mentioned before, it does not account for the substantial growth of the Korean film industry that occurred before the late 1990s. Second, in 2011, the highest estimate of the subsidies granted to the Korean film industry amounts to roughly USD106 million (roughly EUR77 million at 2011 exchange rates), which is roughly a tenth of the subsidies (EUR676 million) received by the French film industry in the same year (Messerlin 2014).

It could be argued that Korean subsidies are relatively small simply because the Korean film industry is smaller when compared to European examples. However, in 2011 the size of the Korean film industry was more than two-thirds the size of the French film industry, a remarkable achievement when one recalls the situation of the Korean film sector in the early 1950s or even as recently as the early 1990s and the level of subsidies which was very low until the late 2000s. As a result, depending on the estimate of the subsidies used, the 'subsidy rate' – subsidies as a share of value added in the Korean film industry – ranges from insignificant (2 to 3%) from the late 1990s to 2006 to roughly 8% from 2007 to 2011 – compared to 30 to 65% in France in 2011 (Messerlin 2014). In short, subsidies for the Korean film industry has been very little in either absolute or relative senses. It is also noteworthy that Korea's financial support is based on indirect subsidies.

4.2. Another way to subsidize: tax deductions but still too low

Lastly, the Korean government offers various tax exemption schemes for publishing, broadcasting, and film sectors. However, it is important to stress that 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 1000 employees on average, an equity capital lower than KRW10 billion (USD9 million at 2011 exchange rates), total sales lower than KRW10 billion (USD9 million) and/or assets lower than KRW50 billion (USD45 million). Third, eligible SMEs have to comply with a crucial 'independency' condition: more than 30% of securities issued should not be owned by the largest shareholder. Fourth, the SMEs should not be located in the Seoul Metropolitan area, a serious constraint for cultural product producers which often need a large market nearby (MCST 2010a). Last but not least, once a company is qualified to be an SME, it is treated as an SME for only 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. In fact, MCST (2010a) reported that only 15.9% of SMEs benefited from this scheme. Given this figure, it seems reasonable to argue that the subsidy equivalent generated by the tax exemption regime is not significant. To sum up, the current tax deduction regime does not change substantially the subsidy rate calculated before. Indeed, many Korean organizations and scholars have raised their voice to increase the tax exemption regime for the film industry (Kim 2000, Do *et al*. 2005; MCST 2010b).

5. Conclusion

The Korean film industry provides a remarkably dynamic and successful story. Finding the reasons for the success of the Korean film industry is a very important task. However, most studies have highlighted the importance of government policies, particularly protectionist measures, e.g., quotas, and supportive measures, e.g., subsidies, without considering other crucial elements, for example pro-competitive reforms, business environment, and business activities over a long term perspective.

By conducting an in-depth analysis of Korea's film policies relying on robust data and a rigorous analysis incorporating a historical long-term perspective, this paper suggests important implications for the film policies of other countries. First, Korea has implemented various protectionist and supporting policies, yet the success story of the Korean film industry cannot be attributed to efforts like import and screen quotas or supportive policies in the form of subsidies and tax rebates. In fact the import quota system has been very detrimental to the industry, the screen quota regime has played no noticeable role, and subsidies, which began from the late 1990s, came too late to be credited for the precedent success initiated since the early 1990s. Overall, their impact on an already successful industry remains to be seen in the coming years.

Second, the Korean film industry was suffering from a long depression when there were tight protectionist policies which severely hampered the market function and business activities with various actors from the Korean film sector, such as producers, importers, and theaters. The domestic reforms which removed these constraints have been as critical for the take-off of the Korean film industry as the opening of the Korean market to foreign competition.

Lastly, the paper strongly suggests that the core element of Korea's success is the role of business in the dynamic business environment. Large enterprises, such as *chaebols*, are particularly interesting since their activities affect the final result of policies regardless of the initial aims. These large companies brought huge investment into the Korean film industry and have successfully challenged the Hollywood 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.

Movies are very much different from other goods or services. Yet the movie industry also faces supply and demand like any other industry. Indeed, this paper has underlined the various industrial and commercial factors. Pro-competition provisions and market-oriented policies have been more crucial for the Korean film industry's success rather than protectionist cultural policies. Real cultural diversity can be achieved and enriched when there are many competitive cultures, rather than many uncompetitive cultures in the world. It can be said with confidence that cultural excellence is more important than cultural exception.

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Notes

1. The direct distribution undertaken by non-Korean organizations became prohibited when important protectionist measure were implemented by the Korean government in the early 1960s.
2. In fact, this 'reward' system worked during the 1950s. The transfer of US advanced filmmaking equipment and technologies 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, pp. 130–135). Korean directors were even invited to Hong Kong to produce movies there (eventually contributing to the Hong Kong movie 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).
3. Official data can be found only from 1965. The import quota system is abolished in 1986.
4. Two types of 'integrations' should be distinguished. One is the integration or consolidation between productions for achieving the economies of size. The other is the integration between producer and importer for benefitting from reward systems of an import quota regime.
5. The screen quota system has an interesting feature which helps to understand why it is still part of Korea's cinema policy. It is consistent with the current rules in 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 quotas have been used by developed countries – Britain was the first country to introduce this system in 1927, as well as a bitter dispute between the US and France from 1933 to 1946 over the issue – 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.
6. A similar case exists in international trade. A better access to a market granted by a trade agreement does not guarantee that exports to this newly open market will grow.
7. Since American companies were able to directly distribute Hollywood films in Korea, *chaebols* looked for other 'cash cows' such as distribution channels and sales rights of Korean films for home video and cable TV markets.
8. The 3% tax is not charged on theaters that show animations, short films, and artistic films recognized by the Korean Film Council for more than 60% of the 365 days.

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