

## Chapter Two

### Deregulation and Liberalisation from 1986 to the Early 1990s

Eventually, the direct distribution of U.S. movies will kill the local film makers.

– Kim Ho-seon, chairman of the Korean Film Producers Association, 1993.<sup>1</sup>

[Unlike] just about any other country in the world, it seems that competition with Hollywood imports has stimulated the South Korean film industry rather than steamrolled it.

– Chris Berry, film scholar, 2003.<sup>2</sup>

Enacting an official desire to ‘improve film art’ and liberalise film-trading activities, the Korean government began to relax its rigid control of the domestic film industry in 1986.<sup>3</sup> Heavily regulated and protected, the film industry was just one of many sectors of the Korean economy that experienced some form of deregulation and liberalisation in the mid-1980s, a socially and politically turbulent period in Korean history.

Recognising weaknesses in the Korean economy stemming from overextension in heavy industries, the nation’s top economic advisors had been pledging liberal economic reform since the late 1970s. Chŭn Tu-hwan’s military government

(1980 - 1987) sanctioned widespread corporate restructuring and a tightening of fiscal policy, measures that led to an export-oriented boom in the national economy between 1986 and 1988. Boosted with confidence from economic prosperity, civilians joined student protestors in demonstrations against the nation's authoritarian leadership. In June 1987, the government was forced to promise democratisation. In the space of a few momentous years, the nation had radically transformed.

Swept along in the rapid political and economic transformation of the country, the Korean film market was deregulated and opened to the West. This chapter examines the consequences of the government's progressive relaxation of several film industry controls between 1986 and the early 1990s. It focuses on the major government restrictions that, due to their abolition or relaxation, directly or indirectly led to the gradual commercial revitalisation of Korean cinema throughout the remainder of the 1990s. Significant changes to policy include the divorce of film imports from domestic film production (incorporated in the fifth amendment to the Motion Picture Law), and the provision to allow foreign companies to establish direct distribution outlets in Korea (the major aspect of the sixth amendment to the MPL). Liberalisation was not an overnight process and continues to remain a factor in the administration of Korean film policy today. The relaxation of film censorship, for instance, was a gradual process until government censorship was eventually ruled unconstitutional in 1996. Complicated issues surrounding the reduction of the screen quota also remain unresolved at the time of writing. The quota was halved in mid-2006 in order to commence Free Trade Agreement talks with the US, a move that has infuriated filmmakers and advocates of cultural protection in Korea. Another important

liberalising process was the elimination of the 1980 restriction banning Korea's large conglomerates from owning media enterprises. The ramifications of this measure will be taken up in the next chapter.

The period of intense liberalisation coincided with the height and decline of low-budget New Wave film production. Domestic market share steadily declined after 1986, sending tremors through the film industry, and as a consequence local production began to adapt and transform. The protected market of the mid-1980s was amenable to the production of artistic films and low-budget entertainment films because local companies made the bulk of their profits from the importation of US films. After the introduction of US direct distribution subsidiaries in the late 1980s, independent domestic film companies found competition with Hollywood intense and subsequently ran out of the funds required to support a local art cinema. By the early 1990s, provocative sexual and violent material entered mainstream films as competition with foreign imports intensified and censorship restrictions on previously forbidden content were relaxed. Art cinema filmmakers were forced to adapt to the changing market, or be among its victims. "There was a moment when it made sense to talk about a New Wave, but that has passed," Tony Rayns has said. "Korean audiences have had their fill of films about the 1970s and 1980s. Now they want to see movies about contemporary life. The question is whether the so-called New Wave directors can move on to new subject matter."<sup>4</sup> Surprisingly, many filmmakers were provided the opportunity to make such a transition. Even though the demand for films made in Korea diminished during this period of political transition and sustained social unrest, more Korean pictures were made. The number of films produced in Korea rose from 73 in 1986, to 90 the following year, and then 121 in 1991, an increase of sixty-five percent

within five years.<sup>5</sup> To explain this surprising outcome and provide a context for the decline of the New Wave in favour of commercially-oriented film production, we first need to examine the structural relationship between film producers and distributors in Korea at this moment in time. Following Andrew Higson's argument that approaches to national cinemas ought to take into account "the range of films in circulation within a nation state – including American and other foreign films," the discussion that follows centres on the distribution of both Korean and foreign films in Korea.<sup>6</sup>

Since the early 1960s, Korea's film market had been divided into six regional zones in order to accommodate a fragmented system of film distribution. All distribution in the city of Seoul was handled by the network of production companies in close dealings with exhibitors. Producers booked their films directly into individual theatres. Local investment/distribution companies that obtained the rights to Korean pictures through pre-sales serviced the other five regions, greater Seoul, Pusan, Taegu, Kwangju and Taejon. Production companies in Seoul, where the film industry was centralised, would pre-sell the territorial rights to their pictures on a piecemeal basis, accumulating production income from distributors in the five other regions. Once the producer had screened the film in Seoul, prints would be turned over to regional distributors for theatrical release in their designated geographical zones. Profits returned from the regional releases remained with the film's investors, meaning that the film's original producers were required to earn any additional portion of the production budget from the Seoul release only. As Darcy Paquet explains, "Such a system made it possible for a production company to make a film with a comparatively small amount of money, and for risk to be shared among various distributors throughout the

country.”<sup>7</sup> Unfortunately, the incorporation of this unusual revenue sharing system meant that returns to film producers were low, with the regional network of investors and distributors collecting all the receipts outside of Seoul, a market encompassing roughly half the total nationwide audience. Seoul-based film companies were able to protect themselves against significant losses, but since they were almost exclusively reliant on the Seoul audience for their net profits, Korean film production remained a necessarily small in scale, with the emphasis on low-budget, low-risk films.

In order to expand their production activities, film companies required an additional form of revenue. Auspiciously, new opportunities to earn income from the distribution of US films in Seoul arose following the elimination of the import-quota system in 1986.

## **2.1 Rise in Film Imports**

Announced at the end of 1984 and effective from July 1986, the fifth amendment to the Motion Picture Law divorced film imports from production by abandoning the import-quota system, removing most of the registration criteria for production companies, and forcing the Motion Picture Promotion Corporation to cease importing mainstream films, which it had previously been doing in competition with private companies.<sup>8</sup> These revisions resulted in a sudden and steep rise in film imports.

Before the liberalisation of import restrictions, there were only around 20 registered film importation companies operating in Korea.<sup>9</sup> Due to the MPL’s restrictions on the size and activities of these companies, each also owned a large

and fully equipped film production studio that propped up their increasingly lucrative import businesses. For every four films the local studios produced, one film could be purchased from overseas and distributed to Korean theatres. While Korean films were in the midst of a long box office slump lasting from the early 1970s, the popularity of imported films from America and from other parts of Asia was on the rise. Throughout the mid-1980s, entities permitted to trade with overseas movie companies, including major outfits such as Tae Heung Films, Dong-A Export and Hwa Chun Trading, were importing fewer than 30 foreign pictures each year.<sup>10</sup> After the implementation of the fifth amendment, the ranks of import companies swelled, and the number of pictures brought into the country rose dramatically. Instead of owning a fully-fledged studio, the only requirement for a company to register as an import business was a one-time payment of \$1 million to the Motion Picture Promotion Corporation.<sup>11</sup> Consequently, by 1987 there were more than 80 registered companies bringing close to 100 films into the country.<sup>12</sup> Just two years later in 1989, 321 films were imported, an increase of more than ten-fold from the trade restricted mid-eighties.

For Seoul's major film companies, the import trade was a more attractive business than film production. Although Korean films were being made in an increasing abundance, few became major revenue spinners for their rights owners. Foreign films, including those from America, could be purchased at a price that was competitive with the production budget of a homegrown film, yet average receipts from attendances to foreign movies were significantly higher than those of domestic films. Ticket prices to foreign films were also on average 5-6% higher than for local productions, equating to greater proportional box office earnings.<sup>13</sup> In combination with these factors, the favourable split of box office proceeds was

another contributor to the superior profit margins for distributors of foreign films. Up to 60% of theatrical receipts were turned over to distributors as net rentals (i.e. gross box office revenues minus the exhibitor's share). In 1987, foreign film imports earned distributors average net rentals of \$380,000, more than twice the average rentals of \$180,000 earned from domestic film productions.<sup>14</sup> Demand swayed in favour of imports throughout the decade. From the middle of the 1980s until 1990, the total price paid for film imports increased from \$5.9 million to \$27.1 million.<sup>15</sup>

The government's provision allowing film companies to import more foreign pictures brought wealth into the hands of local distributors. Larger film companies involved in both distribution and production activities were able to utilise funds gained from imports to make local films, explaining the small rise in the number of Korean films produced between 1986 and 1988, but maximising receipts from imports became (or otherwise remained) the prime agenda of most film companies. A nexus of mutual interest in relation to American production formed between major distribution companies and theatre owners in Korea, all of whom stood to benefit from the increased presence of American movies in the domestic market. For the short period between 1986 and 1988, when foreign import restrictions were relaxed but foreign companies remained banned from operating direct distribution subsidiaries, this nexus brought economic prosperity to Korean distributors and exhibitors. It also forced local producers to adopt a non-competitive stance towards the bigger budget entertainment imported from Hollywood, a strategy that benefited the artistic and political objectives of New Wave art cinema.

Another player to benefit from the rise in film imports after the fifth amendment to the Motion Picture Law was the Motion Picture Promotion Corporation. In addition to the \$1 million the MPPC received from every newly registered import company, legislation imposed on every imported film a 100 million *won* fee (on average \$120,000 in late 1986 and 1987) payable to the MPPC's Korean Film Promotion Fund. With this measure, the MPPC was compensated for the revision to the fifth amended MPL that forbade the government's agency in the film industry from importing films in competition with privately owned import companies. Korean importers, rather than foreign distributors, were saddled with this fee, which put a significant up-front dent in average earnings from rentals, but the large difference in box office revenues between foreign and local films meant that compulsory payments to the Fund were no more than a hindrance for most importers.<sup>16</sup> The sums involved were not sufficient to tip the balance in favour of distributing more domestic titles, especially for importers of commercial entertainment films.

Industrial conditions produced by the changes to film policy in the mid- to late 1980s encouraged film companies in Seoul to conduct an asymmetrical film business, with lucrative import activities favoured over the production and circulation of domestic pictures. Local audiences who eagerly flocked to foreign films contributed the necessary income that domestic film companies required in order to continue producing low-budget Korean films that were relatively unsuccessful at the box office. Seoul's major film companies (i.e. those whose enterprises included imports) did not heavily protest the failure of theatre owners to observe the regulations of the domestic screen quota because the business of importing films was more profitable to them. It was in the economic interest of

film companies to remain silent concerning quota breaches, so that exhibitors could increase the volume of foreign films in theatres without threat of penalty. These circumstances suggest that the Screen Quota Watchers' belated campaign to monitor exhibitors after 1993 grew out of a responsibility to not just cultural protectionists but also to the smaller film production houses who were not as heavily involved in importing films, if at all.

For over a decade, the import-quota system sustained a quota quickie model of production characterised by low-budget films that were not intended to gain distribution outside the domestic market and which were made without consideration of creative inputs for greater aims. When the system was abolished the situation for Korean filmmakers did not automatically improve. Freed from the restriction to produce and import films in tandem, existing companies siphoned even more of their activities and finances into importation. New laws permitted the formation of smaller film companies, and unsurprisingly many of these businesses also devoted themselves to imports. Facing stiff competition from a glut of foreign, mostly American, movies, Korean production companies struggled to secure screens for their own pictures. Korean importers, distributors and exhibitors, on the other hand, reaped the financial benefits of popular foreign films. Korea's unhealthy production sector was offset by far healthier distribution and exhibition sectors, but according to Hollywood the conditions of film circulation in Korea were economically disadvantageous and unfair.

## 2.2 Direct Distribution

Given the massive surge in lucrative American movies entering Korea, Hollywood studios and the Motion Pictures Exporters Association of America (MPEAA) quickly became dissatisfied with a prevailing trading system that forced US distributors to share profits with Korean importers. Due to the huge boom in the export of Korean goods to the US between 1986 and 1988, Korea's restrictions on trade had come under increasing scrutiny from the American government. For example, Hyundai's successful penetration of the North American automobile market at this time sparked US trade pressure concerning the removal of Korea's import restrictions on American motor cars. The Korean film industry was just one among many other domestic markets that the US government wished to reform.

Through the MPEAA, Hollywood had been applying pressure on American trade representatives for Korea since 1985. The fifth amended MPL had partly arisen from US trade pressure on Korea to liberalise its motion picture entertainment market. Changes to the Motion Picture Law that commenced from mid-1986 as a result of the fifth amendment did not satisfy Hollywood's extensive long-term grievances with the Korean film industry. The MPEAA argued that Korea's film import restrictions were among the strictest faced by American distributors and declared to the US Senate Finance Committee that it aimed to file an unfair trade complaint.<sup>17</sup> Washington threatened Korea with retaliatory trade measures, including a proposal to impose tariffs on imports of Korean VCRs to the US.<sup>18</sup> Relenting to the trade pressure, the Korean government signed an accord with the US at the end of 1984 that promised American companies would soon be

able to open direct distribution subsidiaries in Korea and circulate their products more freely. Lack of progress on this agreement provoked Hollywood to lobby for the re-exertion of US trade pressure on the Korean government. The major American studios wanted to bypass Korean importers and open direct distribution outlets in Korea. They felt that the requirements of the MPPC's Korean Film Promotion Fund were unreasonable, because the fee that Korean importers were forced to pay to the Fund lowered the overall price that American distributors could demand for the pick-up rights to American films. Additionally, Hollywood complained about unfair trade practices concerning the Korean government's implementation of the screen quota system, its restrictions on the access of foreign companies to the home video market, and its stern regulation of film censorship.<sup>19</sup> Through its engagement with the Office of US Trade Representative, the MPEAA sought to reduce the quota and gain provisions for US companies to open businesses in Korea across the entertainment sector.<sup>20</sup>

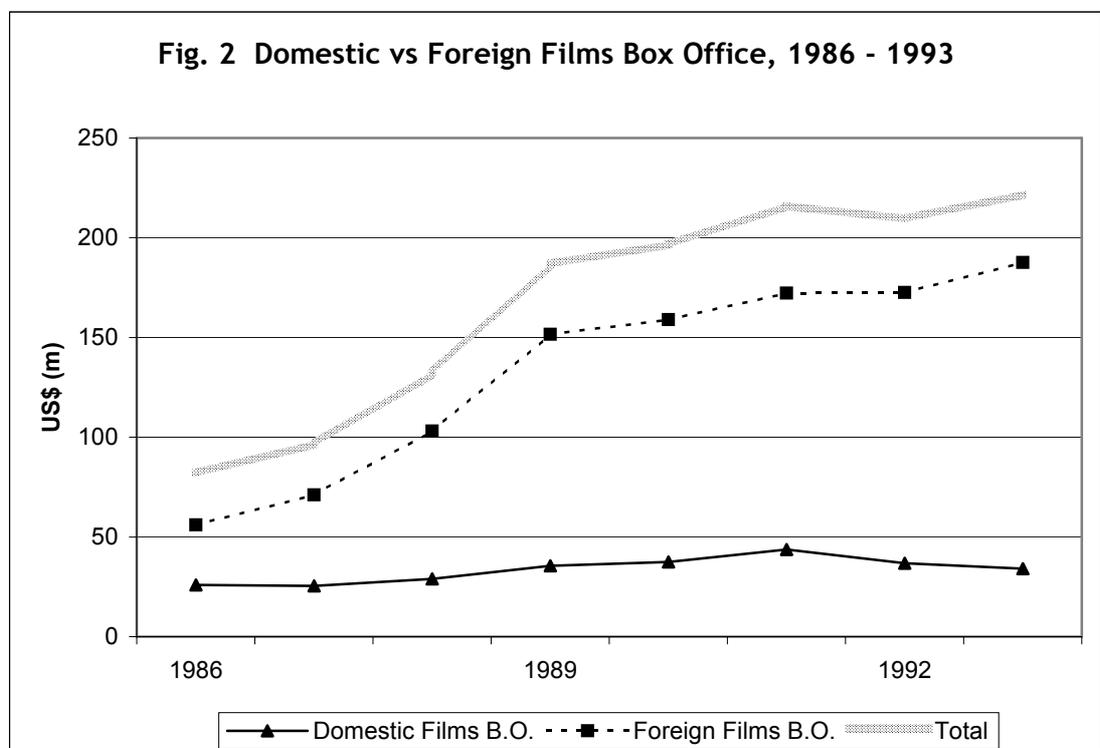
Persistent trade pressure ultimately led to the enactment of the sixth amendment to the Motion Picture Law, which was announced at the end of 1986 and brought into effect in January 1988. To the economic benefit of local importers, but detriment of the MPPC, the sixth amendment abolished the Film Promotion Fund and reduced the registration fee for new import companies from \$1 million to just over \$70,000.<sup>21</sup> In theory, American distributors stood to benefit from this specific amendment as well since the extra capital available to film importers could be factored into the price US companies charged when selling Korean distribution rights for their pictures. In practice, however, Hollywood studios preferred to deal more directly in the circulation of their films in Korea, since the government also acquiesced to the MPEAA's principal request that foreign companies should be

permitted to set up distribution offices in Korea. United International Pictures (UIP), which represented the interests of Paramount, Universal and MGM/UA in Korea, and Twentieth Century Fox set up offices in Seoul in 1988 and late in the year began distributing US films directly to theatres in the metropolitan area.<sup>22</sup>

Before the advent of direct distribution, US films provided a stable source of revenue for Korean distributors and exhibitors. Afterwards, however, the nexus of interest between Korean film distributors and exhibitors was broken. Only exhibitors stood to benefit from the increased distribution of American films in Korea, and the prospect of more foreign films circulating the country boosted the confidence of infrastructure investors. In 1986, sensing an increase in audiences after the abolition of the import-quota system, many exhibitors had confidently invested in the repair and renovation of their theatres and amenities.<sup>23</sup> Between 1986 and 1990, over one hundred new theatres were opened across the nation. In 1987, the first full year of activity under the fifth amendment to the MPL, five American movies distributed by Korean companies surpassed 300,000 admissions in Seoul. Meanwhile, only four domestic films gained more than 100,000 admissions each, signalling the asymmetrical demand in the local market that typified Korean cinema until the late 1990s.<sup>24</sup>

As signalled by the brisk increase in the number of films being made and theatres being opened, Korea's overall film market was growing. Total theatrical box office revenues were on the rise, but ticket sales to foreign films far outpaced local productions well into the early 1990s (Fig. 2, next page). Foreign movies attracted almost 85% of total theatrical admissions by the early 1990s. As a result, exhibitors were prepared to ignore the requirements of the screen quota in order to screen more foreign pictures, since commercial films made outside of Korea were

clearly more popular with audiences than low-budget films produced in Korea. Even taking into account that theatre owners received a maximum of 40% of the gross box office receipts for foreign films, compared with a more attractive 50% split for domestic films, foreign films accumulated much larger proceeds for exhibitors. Compounding the coalition of interest between Korean theatre owners and Hollywood was the fact that many of the newly registered import companies were subsidiaries of existing first-run exhibition businesses.<sup>25</sup>



Source: Korean Film Council.<sup>26</sup>

Direct distribution created a product vacuum for local distributors, who lost the trade advantage they had nurtured under the fifth amendment between 1986 and 1988. Twentieth Century Fox and the Hollywood studios represented by UIP were eager to handle distribution of the films they owned by negotiating directly with

Korean exhibitors. The cosy environment under the fifth amendment that provided major domestic film companies with large income streams from their import practices suddenly evaporated. Accustomed to paying a flat-fee to purchase the Korean distribution rights for American films, importers discovered that they could no longer negotiate such advantageous deals because the first preference of Hollywood studios was to distribute through UIP or Fox. Under the previous system the rights to *Jaws 2* (1978), for instance, were purchased for \$300,000. After renting the picture to local theatres and selling it piecemeal to regional distributors, the importer recouped \$2 million. Direct distribution reversed this fairly typical situation in favour of Hollywood. MGM/UA's *Rain Man* (1988) would have sold for an estimated \$750,000 to an importer in Seoul, but by distributing the picture direct to exhibitors in Korea through UIP in May 1989, the studio collected net rentals of \$2 million, while importers gained nothing.<sup>27</sup> Given the difficult competition facing importers, investment in film production was bound to suffer.

The sixth amendment may have officially authorised the opening of direct distribution businesses, but various forms of resistance made it difficult for the newly opened subsidiaries of the Hollywood majors to successfully commence operations in Korea. Film production and distribution companies expressed their unhappiness about the government's capitulation to American demands for freer trade in film sectors. Since it was well known that Korean theatres rarely observed the screen quota, filmmakers felt that Hollywood pictures would quickly saturate local screens. With domestic films unable to secure theatre bookings, filmmakers and distributors argued, box office revenues for Korean films would decrease and this would lead to an overall deterioration in the availability of film finance for

local productions. Korean moviemakers worried that they would be put out of work, and that audiences would lose the opportunity to see films that represented the Korean people within their own cultural contexts.

Just before the first release of a directly distributed US picture (Paramount's *Fatal Attraction* (1987), handled by UIP) at the end of September 1988, the MPEAA filed another separate unfair trade complaint with US trade representatives. According to the MPEAA, unnecessary restrictions and delays during the censorship and classification review of American movies in Korea, a process handled by the Picture Evaluation Committee (PEC), were effectively regulating the number of films that could be brought into the country for the purpose of direct distribution. When UIP submitted a slate of films for review, including *Fatal Attraction* and UIP's second local release, *The Living Daylights* (1987), it took the PEC more than five months to resolve censorship issues and classify the pictures.<sup>28</sup> Exacerbating this problem was the PEC's insistence that only one film per distributor was allowed to undergo evaluation at any time, meaning that a costly backlog of unreviewed and unreleased films would rapidly accumulate.<sup>29</sup> Soon after the complaint was filed, the Korean government appeased the US and the MPEAA with reassurances that the classification and censorship process for foreign films would be liberalised further.

The Korean government's concessions to the sustained trade pressure of the MPEAA stirred anti-American feelings and intensified a lack of confidence among Korean filmmakers, producer/distributors and importers with regard to the domestic cinema. The mutual interests of the groups in the film industry who were most threatened by liberalisation banded them together against Hollywood film companies and local theatre owners who dared to screen directly distributed films.

Foreshadowing the growing importance of vertical integration for the industry, some of the larger exhibitors also operated import subsidiaries. Since they were also at risk of losing monetarily to Hollywood, they too joined in a general boycott of direct distribution. As a consequence, UIP and Fox were forced to book their earliest releases in smaller second-tier theatres. In order to entice theatre owners to book American films, UIP offered to split advertising expenses with exhibitors and they did not ask for an up front booking fee as some Korean distributors did.<sup>30</sup> Furthermore, UIP offered films directly to theatres around the country, circumventing the network of regional investor/distributors. In this way, UIP's film marketing activities could be centralised in a manner more in keeping with the regular contemporary practices of Hollywood.

Described as a "cartel" that exercised "guerrilla tactics" by sections of the American press, the opponents of direct distribution launched an extraordinary intimidation campaign against UIP and theatre owners who refused to boycott UIP's pictures.<sup>31</sup> Violent threats were reported against the owners of cinemas and their families. A few apparently culpable theatre owners were blackmailed with threats to expose their extramarital affairs and tax evasions. Demonstrators picketed outside movie houses. Some screens were defaced with spray paint; others were set on fire. One cinema, empty at the time, was firebombed from the street. Tear gas bombs were unleashed on unsuspecting audiences. Most colourful and notorious of all, live snakes were released within crowded theatres. Furthermore, several newspapers stirred the nationalist resentment by refusing to place advertisements for UIP.<sup>32</sup> As a consequence of the protest movement, UIP found it extremely difficult to secure lasting partnerships with valued exhibitors. Only around 10% of the nation's theatres dared rent *Fatal Attraction* from the

distributor.<sup>33</sup> In retaliation, the MPEAA briefly barred all Korean-based importers from picking up the rights to American films not handled by UIP and Fox.<sup>34</sup>

In addition to launching various forms of vociferous protest, Korean distributors responded to direct distribution through two separate courses of action. Needing to find comparatively cheap alternative film production streams to feed their pre-existing distribution pipelines and return the market to some form of equilibrium, Korean distribution companies began (a) importing more films from Hong Kong, a national cinema that sustained a strong regional presence in this period through its emphasis on the production of commercial entertainment films, and (b) investing greater funds in local film production. The former option proved successful, but only in the short-term since it relied on the strength of Hong Kong cinema in relation to the international market. The mass-market cinema of Hong Kong achieved immense popularity in the late 1980s, especially across borders in East Asia. It buoyed importers that the Korean market was no exception, but when films from Hong Kong became less attractive to Korean audiences after the early 1990s, Korean distributors were forced to bolster local production as an alternative. In order for local distributors to shift their objectives and invest in Korean movies, an injection of capital was required. The question of where the money came from to reinforce commercial film production in Korea will be taken up in the next chapter.

### **2.3 An Influx of Movies from Hong Kong**

The presence of direct distribution outlets in Seoul suggested that American companies had sensed an opportunity to capitalise on the growth of the Korean

film market. Admissions to Hollywood movies were expected to rise. This meant that even in rare situations where Korean film importers could purchase films from Hollywood, American studios felt justified in asking for steeper flat fees. Measures like these encouraged importers to look more closely for new sources of films from entertainment industries other than Hollywood's.

European films were seldom seen in Korean theatres after the promulgation of the Motion Picture Law in 1962, which encouraged domestic film production at the expense of imports. Even after the fifth amendment to the MPL liberalised import businesses, few European films were purchased. A total of seven films from Italy, France, the UK and Switzerland were imported in 1986, for instance, and none of these were overly successful at the box office.<sup>35</sup> The prospects for importers of European cinema remain minimal in Korea today. Japanese cinema was not an option either, since there was a long-standing ban on the commercial importation of cultural goods from Japan as a consequence of Japan's colonisation of Korea. It was not possible for importers to profit from releasing Japanese movies in Korea until the end of 1998.

The Hong Kong film industry, on the other hand, had relatively close ties with Korea due to the numerous international co-productions made between the two countries since mid-1950s. "Korean resentment towards things Japanese indirectly gave us a hand," remarked Chua Lam, a producer at Shaw Brothers and Golden Harvest since the 1960s, as he referred to selling Hong Kong movies overseas.<sup>36</sup> In the 1960s, Hong Kong's Shaw Brothers and one of Korea's biggest studios, Shin Films, made arrangements for several Hong Kong films to be shot on location in Korea, using a mixture of talent from both countries. On occasion, versions of the films were made with actors speaking in Korean rather than

Mandarin, with the intention of improving Korean release sales figures.

Subsequently, many Korean filmmakers (e.g. Chung Chang-wha) and actors (Kim Seung-ho) commenced careers in the Hong Kong film industry.<sup>37</sup>

The action and ghost-fantasy films coming out of Hong Kong in the late 1980s proved increasingly popular in Korea. In his cross-cultural analysis on the reception of Hong Kong movies in Korea at this time, An Jin-soo has explained that young audiences attending the country's third-tier theatres in rural towns and on the peripheries of metropolitan areas were largely responsible for the spurt in popularity.<sup>38</sup> An argues that the successful Korean releases of *A Better Tomorrow* (1986) and *A Chinese Ghost Story* (1987) in third-run theatres, after distinctly unsuccessful first- and second-run releases, indicated the formation of an important film culture among young male viewers situated outside the mainstream. Over the next few years, however, the preferences of this marginal audience migrated into the mainstream, triggering an increase in the demand for Hong Kong movies featuring elements of broad commercial appeal. Subsequently, there was an increase in the number of Hong Kong movies released during this period as importers tried to latch on to the nascent market. As An Jin-soo has noted, compared to 1986 when just four films from Hong Kong were purchased, importers acquired almost one-hundred Hong Kong movies in 1990, a figure comparable with the number of Hollywood titles entering the country.<sup>39</sup>

Hong Kong cinema offered Korean importers the best alternative in their search for strategies to combat the influx of Hollywood films since it offered competitive and proximate solutions on multiple fronts. Like Hollywood, Hong Kong produced a mass-market cinema designed to appeal to a wide range of viewers both at home and overseas. Film exports from Hong Kong were popular within

East and South East Asia, especially where linguistic and cultural compatibilities between audiences and the content of films were conspicuous. It demonstrates a particular degree of this transnational familiarity that many Koreans, in addition to their native *han'gŭl*, can still read and write *hancha*, the subset of Chinese characters that was incorporated into Korean language in the 15th century. Hong Kong cinema's regional success had previously made waves in Korea. Released in 1980, the martial arts film *Snake in the Eagle's Shadow* (1978) was a minor box office sensation, selling more than half a million tickets in Seoul. Importers also had to consider the lower expenses associated with Hong Kong films. Taking into account the elevated price demands of the US film companies that were not affiliated with Fox or UIP, buying films from Hong Kong was a cost-effective enterprise for importers. Together with the rise Hong Kong cinema's popularity, the combination of these factors allowed importers of Hong Kong films in Korea to compete with Hollywood distribution subsidiaries.

Between 1988 and 1992, several movies imported from Hong Kong found significant box office success in Korea. Importers collected healthy receipts as films such as *A Better Tomorrow II* (1987, released in Korea in 1988), *The Killer* (1989), *Casino Raiders* (1989), *Once Upon a Time in China* (1991) and *East is Red* (1992) achieved top ten box office performances. The budding domestic home video market also witnessed strong rentals of Hong Kong movies. To return to An Jin-soo, "the promulgation of video contributed significantly to the development of intense and repeated viewing," among the growing group of Hong Kong cinema's avid Korean fans, boosting revenues for distributors and video retailers.

After 1992, the commercial deterioration of Hong Kong cinema precipitated a decline in the popularity of new Hong Kong films in Korea. Film companies in Korea learned a valuable lesson from the experience, however, which they soon attempted to put into practice. The brief period that Hong Kong movies succeeded in penetrating the mainstream domestic market demonstrated to a new generation of local producers and distributors that the commercialisation and regionalisation of Korean cinema were twin objectives well worth pursuing. If commercial Hong Kong movies could sell in Korea, why not try to make Korean movies that could sell in Hong Kong, and other countries in the region? As I explain in the next chapter, new entrants in film finance helped realise these dual aims before the end of the 1990s. Before turning to a discussion of Korean cinema's gradual revitalisation, I would like to explain how the Korean government managed to protract liberalisation and deregulation processes throughout the 1990s, thus sustaining a degree of control over the film industry.

#### **2.4 Regulation After Direct Distribution**

After acquiescing to America's trade demands and permitting major Hollywood studios to open direct distribution offices in Seoul, the Korean government was not about to simply hand over the keys to the kingdom. Once the protest movement died down, allowing UIP and the other direct distribution outlets to release more American films, it became obvious that additional policy mechanisms would be set in place to impede their access to the local market.

First, discouraging distributors of American, Hong Kong and all other foreign films, the government maintained a \$5,000 duty on every print brought into the

country or struck from an imported film.<sup>40</sup> In the late 1980s, it was not cost effective to distribute any more than six prints to first-tier theatres in the entire country. Thus, at worst, the import duty meant an additional \$30,000 expense for importers. For small operators licensing films from within Asia this was a substantial amount, but for UIP, Fox and newly opened direct distributors the per print import duty was not a major issue. Since the introduction of the duty placed additional financial pressure on small Korean import companies, whom large Hollywood distributors would have liked to squeeze out of the market, there was minimal trade pressure from the US to remove or reduce the fee. Through this measure, the government seemed to indicate that if it could not curtail the importation of American films it would at least position itself to capitalise from any saturation of Hollywood products in the local market. For the Korean government, this was a policy designed to gain small returns from Hollywood in return for the surrender over direct distribution. Hollywood was not inclined to agonise over the duty, because the far more important battle involving the greater presence of American films in Korea had already been fought and won.

Second, the government imposed a restriction on the number of foreign film prints allowed in circulation. Between 1988 and 1994, distributors were required to release a foreign picture on fewer than 13 screens nationwide.<sup>41</sup> Not a factor in the early period of direct distribution, this limitation grew in importance as the operations of Hollywood distributors expanded in the early 1990s. Effectively, the print restriction barred the nationwide saturation release strategy that was favoured by the majors. For local distributors of American blockbuster movies, this was not a desirable situation. Korea's multi-tiered exhibition system benefited a limited release strategy, with pictures remaining on fewer screens for longer

periods. *Sopyonje*, for instance, was the first Korean film to reach one million admissions, yet it opened on just one screen in 1993 and even at the peak of its release was seen on no more than five screens. Direct distribution agencies were thus forced to adopt local release and marketing tactics for big-budget, high concept products that were designed from their outset for market saturation over a short period. By stifling the progression of wide release strategies, the government established a fixed environment that allowed distributors of local films to remain partially competitive with Hollywood distributors. When the restriction on the number of prints in circulation was abolished in 1994, it was at a moment commensurate with the interests of Korean film distributors, who subsequently released local films more widely. In the mid-1990s, a standard sized opening involved 20 screens, with more than 60 screens reserved for large-scale releases in the late 1990s.

The regulation of film print traffic was the government's short-term solution to the problems that direct distribution created. In the longer-term, the domestic film industry required administration through more liberal measures that would set up the structural conditions under which the industry could run profitably by itself without being propped up by regulation. If not, the application of more trade pressure originating from Hollywood was inevitable. Indeed, soon after print restrictions were removed, Hollywood commenced a long fought campaign to have the screen quota reduced. Following the commencement of direct distribution, it was clear that without a substantial upgrade the government's major film body lacked the capacity to aid Korean filmmakers. The deregulation and overall improvement of the Motion Picture Promotion Corporation was another important step towards the late 1990s revitalisation of Korean cinema.

## 2.5 Moderating the Functions of the MPPC

When the Motion Picture Promotion Corporation was formed in 1973, among its primary purposes was to make certain that the government's strict policies concerning film content were observed by the industry's operators.<sup>42</sup> As Park Seung-hyun explains, the MPPC was formed in order for Pak Chŏng-hŭi's incumbent administration to make use of "cinema and other media as mechanisms to perpetuate Cold War ideology, militarism, and political centralism."<sup>43</sup> Until liberalisation measures were well under way in 1986, the MPPC was employed to stipulate the social and political guidelines that producers of films ought to abide if they wished to avoid breaching the government's stern concept of social morality. Filmmakers could end up serving time in prison if they pushed the boundaries of permissible content too far.

Several alterations to the Motion Picture Law promulgated in 1988's sixth amendment aimed to erode the MPPC's function as an ideological apparatus of the state, simultaneously reducing the film agency's capacities as a buttress for various industrial practices. Following the compulsory loss of payments to the Korean Film Promotion Fund, the reduction of the one-time registration fee for new import companies, and the restriction placed on importing films, only two of the MPPC's primary income streams survived. The first of these comprised the MPPC's share of proceeds from a 8% tax imposed on theatrical admissions. The principal beneficiary of the ticket tax was the Promotion Fund for Culture and Art, however, and not the MPPC, which was granted an annual budget by the government.<sup>44</sup> As in other countries where such a tax offset system exists (e.g. France), earnings from ticket sales to more popular foreign films contribute to the

production of less popular domestic films and the administration of the local industry.

The other major revenue-creating business for the MPPC involved the collection of proceeds from film producers who utilised the MPPC's film printing laboratory and rented its sound recording facilities. The improved post-production facilities of the MPPC were especially important to filmmakers, since throughout this period only 5% of Korean movies were shot with synchronised sound, and previously film stock was often sent to Japan because of its superior laboratory facilities.<sup>45</sup> Production companies were also obliged to deposit 100% of a proposed movie's production budget with the MPPC before entering pre-production. Over the course of a film's production, the producer gradually regained 90% of this security deposit as progress milestones were achieved. In the meantime the MPPC was free to invest the sum and earn interest. The MPPC also retained the remaining 10% of the deposit.<sup>46</sup>

Production investment was another of the MPPC's key undertakings since its establishment. Throughout the 1970s and early 1980s, the MPPC invested directly in film productions, but it usually offered finance only to pictures that contained material sympathetic to the government's national reform policies and ideologies.<sup>47</sup> The reduction in the MPPC's overall budget meant that it was not in a strong position to provide an assured helping hand to the film industry as producers tried to compete with the brief popularity of foreign releases in the late 1980s and early 1990s. The loss of the Film Promotion Fund hampered the MPPC's major function on behalf of local filmmakers, i.e. it resulted in fewer dollars spent on bringing Korean films to the attention of local audiences and international buyers. In 1984 the MPPC had opened an office in Hong Kong in

order to promote Korean films.<sup>48</sup> Contemporary Korean films were unattractive to importers based in Hong Kong, however, and not a single film opened in Hong Kong theatres as a result of the MPPC's activities. (Commercial releases of Korean films in Hong Kong did not occur on a regular basis until the late 1990s.) A paucity of commercial films made in Korea, the relative strength of the Hong Kong domestic film market, and the MPPC's limited funds for overseas promotion all worked against would be exporters of Korean entertainment.

The onset of democratisation eroded the MPPC's requirement to serve the principles of the authoritarian government. In 1990, the government separated the Ministry of Culture from the Ministry of Culture and Information. "By so isolating its cultural function," noted *Variety* correspondent Frank Segers, "the Ministry appeared to shift its focus from controlling the film business to fostering it."<sup>49</sup> As a result, the MPPC revised its business strategies, expanding the range of its support mechanisms to include more than promotion and production. Rather than simply pour scarce funds into the production of rarely profitable domestic films, the MPPC renovated production facilities, imported modern equipment and developed plans for the construction of a new \$9.5 million studio complex in order to make improvements to industrial infrastructure.<sup>50</sup> Pre-production assistance was offered to filmmakers in the hope of nurturing talent and projects before committing finance to production. Furthermore, the MPPC highlighted the importance of research and film education to the industry, providing study grants and scholarships, developing research publications, and making courses available to enhance the qualifications of filmmakers. Throughout the 1990s, these steps benefited the gradual revitalisation of the industry, both in economic terms (providing superior cost-effective resources for production) and cultural terms

(making the industry more accessible and transparent for new filmmakers and general audiences, contributing to knowledge). As we shall see in the next chapter, the opening of new avenues for film investment in the 1990s had an upward effect on average production costs. Rising film budgets meant producers could afford to hire the MPPC's facilities for longer periods and use more of its services, resulting in a larger cash flow for the government organisation. This environment paved the way for the persistent expansion of the MPPC's operations. In 1999, the MPPC was eventually reorganised and renamed the Korean Film Commission (later the Korean Film Council), an extremely well funded organisation that has sustained the pivotal place of the government in the regional rise of Korea's commercial cinema.

## **2.6 Positive Consequences for the Film Industry**

Coupled with the rapid increase in film imports after the economic liberalisation of the film industry, the advent of Hollywood's direct distribution system in Korea triggered an annual rise in admissions to foreign films throughout the late 1980s. By the end of the 1980s, the protest movement against direct distribution had withered and the stage was set for American movies to dominate local screens. Early box office hits included historical dramas and war-themed films such as *The Mission* (1986), *Platoon* (1986), *Rambo: First Blood Part II* (1985) and *The Killing Fields* (1984), as well as big-budget blockbusters like *Robocop* (1987) and *Top Gun* (1986).

Attendances to Korean films suffered, especially in Seoul where the distributors of foreign entertainment capitalised on the relatively high demand for US pictures

among mainstream urban audiences. For a short time, however, the influx of foreign films managed to halt and reverse Korea's fifteen-year decline in total nationwide admissions, a good outcome for exhibitors. Fortunately for Korean producers and distributors, the resurgence in ticket sales to foreign films was brief, and Hollywood entertainment did not completely squeeze local products out of the market. In the early 1990s overall admissions resumed the general pattern of decline that had been evident since 1970, falling 20% over the next five years.<sup>51</sup> Even the financial presence and expertise of Hollywood distributors failed to bring Korean audiences back to theatres on a long-term basis.

Given Hollywood's historical domination of screens worldwide and the relaxation of legislation that barred American studios from access to the Korean market for several decades, it is remarkable that Hollywood distributors did not increase their majority share of the market in the mid-1990s. Contrary to fears among filmmakers, production in Korea would only grow stronger throughout the decade.

Before the domestic resurgence, in as early as 1991, observers such as *Variety's* Frank Segers were keen to point out "signs that the entry of the American major film distributors into South Korea in the fall of 1988 is actually benefiting local film-makers."<sup>52</sup> The authors of *Korean Film: History, Resistance, and Democratic Imagination* agree that, "[t]he devastating impact of direct distribution has become a positive stimulus for the industry."<sup>53</sup> An executive at one US distribution office in Seoul claimed that the direct distribution of American movies would "contribute to the development of the local industry by spurring local movie people to make competitive movies."<sup>54</sup> Rather than creating films for the pleasure of audiences on the international film festival circuit, competition with Hollywood

became the new game plan for producers. The greater involvement of Hollywood in the Korean film industry encouraged Korean conglomerates with huge financial assets to think about ways of raising the local cinema to a commercially competitive level. Competition with US films became a structural necessity for the vertically integrated film subsidiaries of the conglomerates. Prior to the advent of US direct distribution, Korean distribution companies benefited from the complementary structure formed between Korean and American films. Korean film companies earned the majority of their revenues from the distribution of US films, with additional income derived from the distribution of domestic productions. Direct distribution undermined this complementary structure, forcing local film companies to seek ways of becoming more openly competitive with Hollywood distribution subsidiaries.

Finance was the biggest stumbling block to changing the way films were made in Korea after the late 1980s import 'invasion'. Existing film companies were unable to suddenly produce a range of commercially viable works due to a lack of funds and limited experience handling the release of larger budget pictures. Even if it were mandated to do so, the government-backed Motion Picture Promotion Corporation did not possess the fiscal resources to support more widespread commercial filmmaking. The large-scale re-entry of the *chaebŏl* to the film industry solved the issue of the product vacuum for local distributors, with funding from the *chaebŏl* bolstering domestic film production. In the longer term, investment in exhibition was a viable proposition, but in the immediate future theatrical sales gave way to the *chaebŏl*'s other strategies for earning revenue from motion picture content at various moments through home video, pay television, and synergies with video hardware and software sales. Significant

problems still faced the industry, however, such as a complete lack of multiplexes, enduring censorship issues, and a paucity of commercial Korean films that were attractive to local audiences.

## Notes

<sup>1</sup> Quoted in Sang-kyun Chun, 'Korea's film industry battles for survival,' *Business Korea* 11, no. 3 (September 1993): 51.

<sup>2</sup> Chris Berry, "Full Service Cinema: The South Korean Cinema Success Story (So Far)," From 'Text and Context of Korean Cinema: Crossing Borders,' 9th Hahn Moo-sook Colloquium in the Korean Humanities. (Washington: George Washington University, 2002) <<http://www.gwu.edu/~eall/special/berry-hms02.htm>> (accessed July 28, 2005).

<sup>3</sup> Eungjun Min, et. al, *Korean Film*, p. 58.

<sup>4</sup> Quoted in Alison Dakota Gee and Whitney Mason, "On the Road to Recovery: Changing Times for Korean Filmmakers," *Asiaweek* (January 17, 1997) <<http://www.asiaweek.com/asiaweek/97/0117/feat2.html>> (accessed February 24, 2005).

<sup>5</sup> KOFIC statistics.

<sup>6</sup> Andrew Higson, "The Concept of National Cinema," *Screen* 30, no. 4 (Autumn 1989): 44.

<sup>7</sup> Darcy Paquet, *New Korean Cinema*, p. 36.

<sup>8</sup> Lee Young-Il, *History of Korean Cinema*, p. 273-274.

<sup>9</sup> Fred Marshall, "Korea (South)," in Peter Cowie, ed., *International Film Guide, 1983* (London and New York: Tantivy Press, 1982), p. 198.

- <sup>10</sup> John A. Lent, *Asian Film Industry*, p. 136.
- <sup>11</sup> Eungjun Min, et. al, *Korean Film*, p. 155.
- <sup>12</sup> Sungji Oh, "Korean Cinema and Hollywood," *CineKorea* (1999)  
<<http://www.cinekorea.com/forum/paper01.html>> (accessed October 24, 2003).
- <sup>13</sup> KOFIC statistics. In 1991, average ticket prices for local and foreign films differed by 172 won (3070 won for foreign films versus 2898 won for local pictures).
- <sup>14</sup> Extrapolated from KOFIC statistics. The figures assume exhibitors' net is minimal, and given the limits of available data should be understood as approximate values.
- <sup>15</sup> Chun Sang-kyun, "Against All Odds: Korean Moviegoers Get Some Flicks They Want," *Business Korea* (May 1992): p. 34.
- <sup>16</sup> Eungjun Min, et. al, *Korean Film*, p. 155.
- <sup>17</sup> Anonymous, "South Korea Agrees to Increase Imports of American Films," *Wall Street Journal* (December 24, 1985): 1.
- <sup>18</sup> Barry Monash, ed., *International Motion Picture Almanac, 1991* (New York: Quigley, 1991), p. 701.
- <sup>19</sup> John A. Lent, *Asian Film Industry*, pp. 122-123.
- <sup>20</sup> For a greater length discussion of Hollywood trade complaints with Korea throughout this period, see Brian Yecies, "Parleying Culture against Trade: Hollywood's Affairs with Korea's Screen Quotas," *Korea Observer* (Spring 2007), pp. 1-32.
- <sup>21</sup> Eungjun Min, et. al, *Korean Film*, p. 155.
- <sup>22</sup> Eungjun Min, et. al, *Korean Film*, p. 156.

- <sup>23</sup> Lee Young-II, *History of Korean Cinema*, p. 315.
- <sup>24</sup> John A. Lent, *Asian Film Industry*, p. 136.
- <sup>25</sup> Eungjun Min, et. al, *Korean Film*, pp. 156-157.
- <sup>26</sup> KOFIC statistics.
- <sup>27</sup> Damon Darlin, "To Get U.S. Films Shown in South Korea, It Takes More Than Friendly Persuasion," *Wall Street Journal* (October 2, 1989): 1.
- <sup>28</sup> Anonymous, "Studios Fight South Korea On U.S. Film Distribution," *Wall Street Journal* (September 27, 1988), p. 1; Eungjun Min, et. al, *Korean Film*, p. 157.
- <sup>29</sup> John A. Lent, *Asian Film Industry*, p. 123.
- <sup>30</sup> Eungjun Min, et. al, *Korean Film*, p. 157.
- <sup>31</sup> These colourful descriptions of Korean producers, distributors, importers and their activities are thanks to Darlin Darlin *Wall Street Journal*: 1.
- <sup>32</sup> Remarkably, all of this occurred around the time of the 1988 Summer Olympics, when civil demonstrations were being closely observed and controlled by the authorities. There were reports that UIP also acted as an aggressor during this period, with some suggesting that they were behind the firebombing. Specific incidents are collated from Anonymous, "Studios Fight South Korea," *Wall Street Journal*: 1; Jeffrey Sipe, "A venomous flap over film distribution rights," *Far Eastern Economic Review* (October 6, 1988): 50; Susan Moffat, "U.S. Prodding to Cut Trade Imbalance Is Stirring Hornets' Nest In South Korea," *Wall Street Journal* (February 3, 1989): 1; Damon Darlin, *Wall Street Journal*: 1; Chun Sang-kyun, "Korea's film industry battles for survival," *Business Korea*: 51-52.
- <sup>33</sup> Eungjun Min, et. al, *Korean Film*, p. 80.

- <sup>34</sup> Jeffrey Sipe, *Far Eastern Economic Review*: 50.
- <sup>35</sup> Lee Young-II, *History of Korean Cinema*, p. 260.
- <sup>36</sup> Law Kar, et. al., “Transnational Collaborations and Activities of Shaw Brothers and Golden Harvest: An Interview with Chua Lam,” in Law Kar, ed., *Border Crossings in Hong Kong Cinema* (Hong Kong: Leisure and Cultural Services Department, 2000), p. 141.
- <sup>37</sup> Law Kar, “Chung Chang-Wha: Can Direct, Will Travel,” in Lee Young-Kwan, et. al. eds, *Chung Chang-wha: The Man of Action!* (Pusan: Pusan International Film Festival, 2003)  
<<http://www.asianfilms.org/korea/pdf/ Chungchangwha05.pdf>> (accessed October 14, 2005).
- <sup>38</sup> Jinsoo An, *At Full Speed*, pp. 104-105.
- <sup>39</sup> Jinsoo An, *At Full Speed*, p. 106.
- <sup>40</sup> Fred Marshall, “South Korea,” in Peter Cowie, ed., *International Film Guide, 1988* (London and New York: Tantivy Press, 1987), p. 255.
- <sup>41</sup> On 13 screens according to Chun Sang-kyun, “Korea’s film industry battles for survival,” *Business Korea*: 51, but the figure is 16 screens in Anonymous, “Cultural evolution?” *Business Korea* 11, no. 7 (January 1994), p. 33.
- <sup>42</sup> Eungjun Min, et. al, *Korean Film*, p. 51.
- <sup>43</sup> Seung Hyun Park, *Cinema Journal*: 122.
- <sup>44</sup> Eungjun Min, et. al, *Korean Film*, p. 82, 155.
- <sup>45</sup> Derek Elley, “Korea (South),” in Peter Cowie, ed., *International Film Guide, 1986* (London and New York: Tantivy Press, 1985), p. 218.

- <sup>46</sup> Lee Young-II, *History of Korean Cinema*, p. 265, 267.
- <sup>47</sup> Seung Hyun Park, *Cinema Journal*: 122.
- <sup>48</sup> Lee Young-II, *History of Korean Cinema*, p. 185.
- <sup>49</sup> Frank Segers, "South Korea," in Peter Cowie, ed, *Variety International Film Guide, 1992* (London: Andre Deutsch, 1991), p. 242.
- <sup>50</sup> Frank Segers, *Variety International Film Guide, 1992*, p. 242.
- <sup>51</sup> KOFIC statistics.
- <sup>52</sup> Frank Segers, "South Korea," in Peter Cowie, ed, *Variety International Film Guide, 1991* (London: Andre Deutsch, 1990), p. 246.
- <sup>53</sup> Eungjun Min, et. al, *Korean Film*, p. 181.
- <sup>54</sup> Quoted in Chun Sang-kyun, "Against All Odds," *Business Korea*, p. 34.