

Chapter Three

Resisting Hollywood in the 1990s: New Korean Cinema

The Korean film industry is in perpetual crisis, but it's never been as bad as it is now. Things are in a state of total flux. New people are coming into the film industry. New kinds of capital are financing movies. New methods are coming into film production. New audiences are seeing films. At the same time, our own financing systems are changing along with the entire system of Korean capitalism. All these changes are happening so fast. Things that have been stable for many generations aren't stable anymore. And yet, some of the old structures are still standing. The pace and complexity of change is bewildering, even for us in the business. Me, I'm scared.

– Kim Hong-joon, film director, 1995.¹

Following the deregulation and liberalisation of the domestic film market in the mid- to late 1980s, Korean film companies were required to adopt new business strategies and acquire new sources of finance if they wanted to remain competitive with the influx of foreign entertainment products. By 1992, the way films were financed, produced and circulated in Korea had changed markedly. The New Wave was in decline as a prominent film movement, making it hard for Korean producers and distributors to mobilise a Korean art cinema at home and overseas.

Diminishing attendances at domestic films hampered the aesthetic aspirations of New Wave filmmakers, many of whom embraced the drive towards a competitive commercial Korean cinema in the hope that its success might open subsequent opportunities for an expressive art cinema. Hollywood's distribution subsidiaries had just commenced nationwide distribution activities, bypassing the existing regional distribution system in order to negotiate directly with Korean theatre owners and retain a greater proportion of box office revenues.² Barred access to American films, the network of regional distributors throughout Korea collapsed. The piecemeal regional pre-sale system that Seoul-based production companies had relied upon since the early 1960s also came to an end. Since the system had necessarily kept Korean film companies small, joining American subsidiaries in nationwide distribution activities was a prohibitively expensive proposition. The distribution of locally produced movies was set to suffer as a result of Hollywood's supremacy. In order to combat these changes, a sweeping transformation of industrial practices was required.

The *chaebŏl*, the largest privately owned conglomerated companies in Korea, had been banned from conducting business in the film industry at the beginning of Chŏn Tu-hwan's administration in 1980. Even before then, the *chaebŏl* were only mildly interested in maintaining a share of Korea's infant culture industry. When Kim Yŏng-sam's democratically elected government (1993-1998) withdrew the ban and allowed the *chaebŏl* to resurface in the early 1990s, they were extremely keen to create media divisions and take possession of increasingly profitable cultural software. Since it was a primary source of cultural production and circulation, Korea's film industry was an important conquest for the profit-motivated *chaebŏl*.³ Commercially-oriented film producers were eager to benefit

from the financial power of the nation's largest firms. With the authorised re-emergence of the *chaebŏl* came large-scale corporate financing, access to Korea's banking sector, bigger film production budgets, as well as the vertical and horizontal integration of the film industry.

Until the devastating impact of the region's economic crisis in 1997/98, the *chaebŏl* and the film companies that aligned with them embarked on a concerted effort to commercially rejuvenate Korean cinema. By moving Korean production into the commercial mainstream, this period was instrumental in the development of today's remarkably popular cinema. The *chaebŏl* established a national cinema based on competition with Hollywood, while profiting from the local exploitation of Hollywood production. Some of the important features of contemporary Korean cinema that originated in this period include (a) the formation of vertically integrated media empires, (b) increased spending on film productions to feed the integrated system, (c) an emphasis on stimulating post-theatrical and ancillary markets, and (d) improved confidence in the profitability of Korean films and production companies among investors. Nationwide distribution was a necessary precondition for the commercial expansion of the domestic market. While the new system displaced numerous existing Korean distributors, it allowed the re-emerging *chaebŏl* to centralise distribution activities, profit from streamlined marketing campaigns, and control domestically produced films throughout the duration of theatrical release. This in turn led to greater spending on prints and advertising, costs that continued to rise throughout the 1990s and that soared exponentially after 1999.

Due to the commercialisation strategies of the *chaebŏl*, the decline in theatrical attendances for Korean films began to reverse after 1993, a remarkable turn of

events. Kim Kyung-hyun claims that since the rise of the conglomerated, globalised and blockbuster-driven New Hollywood in the 1970s, only Korea could boast that it had regained its domestic audiences after losing them to Hollywood products.⁴ In small steps over the next six years, domestic producers regained fragments of the audience lost to foreign films. Robust box office performers such as *Marriage Story* (526,000 admissions in Seoul), *Sopyonje* (1.04 million admissions), *Two Cops* (860,000), *The Gingko Bed* (453,000), *The Letter* (*P'yŏnji*, Yi Chŏng-guk, dir., 1997; 724,000 admissions), and *A Promise* (705,000) demonstrated the success, albeit limited, of Korean cinema's commercial transformation. Considering that prior to *Marriage Story* only two films in the previous two decades had managed to achieve more than 500,000 admissions in Seoul (*Winter Woman* (*Kyŏul yŏja*, Kim Ho-sŏn, dir., 1977) and *The General's Son*), attendance figures like these were a pleasing outcome for local filmmakers and distributors.

At the end of this period, the economic crisis forced the exit of the industry's major players. Doing most of its damage between October 1997 and June 1998, the economic crisis rippled through the Korean film industry, transforming the composition and structure of film institutions and film finance. A number of Korean film companies were closed down, including all of the entertainment subsidiaries owned by the *chaebŏl*. In order to survive the crisis, various film companies affiliated with second-tier *chaebŏl* were forced to adapt to a much tighter fiscal environment and change the way they conducted their daily affairs. A few of the larger entities that did manage to survive swiftly became the most dominant and powerful in the industry. Along with a handful of emerging private investment firms, these surviving film companies were prepared to step in and

provide the key resources to enable Korean cinema to continue its remarkable commercial growth.

3.1 Korean Cinema Under the *Chaebŏl*

The rise and decline of *chaebŏl* involvement in the film industry frames the mid-1990s experience of Korean cinema. Similarly to Japan's *zaibatsu* conglomerates and their *keiretsu* counterparts (*zaibatsu* restructured after World War II), the Korean *chaebŏl* are each a string of interlocked companies bound to one another through centralised shareholdings, horizontally integrated transactions and corporate identity. In many cases, *chaebŏl* are owned and controlled by a single powerful family, and often they have intimate ties with major local and international banks.

The *chaebŏl* have also had a close and often scandalous relationship with the state. Under the successive Pak Chŏng-hŭi and Chŭn Tu-hwan military governments, Korea's central authorities regularly exchanged political and economic favours with powerful *chaebŏl* owners and executives.⁵ No such favours were extended to Samsung and the other *chaebŏl* in 1980, however, when the incoming Chŭn Tu-hwan administration forced the closure of radio stations, newspapers and journals under the Media Consolidation Measure.⁶ Samsung lost ownership of its nationwide radio and television network, the Tongyang Broadcasting Corporation, which it was required to sell to the state controlled Korean Broadcasting Service.⁷ Media activities in Korea were closely scrutinised and censored until Chŭn's departure in 1987. Under the democratically elected No T'ae-u administration (1988-1993) media suppression began to relax, but it wasn't

until the Kim Yöng-sam government took office in 1993 that the *chaeböl* were fully permitted to resume media enterprises in addition to their other multi-billion dollar industries.

Throughout the mid-1990s the top four first-tier *chaeböl*, Hyundai, Samsung, Daewoo and LG (formerly Lucky Goldstar) accounted for more than 30% of the nation's total commerce. In terms of annual revenues, each of the four major Korean conglomerates compared favourably with the large corporations who owned Hollywood studios in the same period. Indeed, the Samsung Group's earnings of more than \$80 billion in 1995 dwarfed those of the Walt Disney Company (\$12.1 billion), as well as those of the owners of 20th Century Fox (News Corporation, \$8.6 billion) and Warner Bros. (Time Warner, \$8.1 billion). Any of the biggest four *chaeböl* were more than capable of servicing even the largest financial requirements of commercially inclined Korean film producers.

Upon re-entering the film industry in the early 1990s, the *chaeböl* were initially focused on filling the void in local production in order to provide an alternative product stream for local distributors. Hyundai's media division, the Hyundai Broadcasting System, summed up the position of many *chaeböl* in relation to film investment: "To have a good cinema business in the long term, we need to beef up Korean production."⁸ While American film companies situated in Korea were restricted to a single major revenue-earning activity (the collection of net rentals from the direct distribution of American films), *chaeböl* entertainment divisions fostered much larger ambitions involving the creation of vertically and horizontally integrated media empires. In this respect, the *chaeböl* followed the lead of the Hollywood majors in the late 1980s and 1990s, for whom, as Jon Lewis has argued, the production of motion pictures had become just one central

aspect of their mammoth “diversified entertainment industries,” encompassing production, distribution, exhibition, as well as post-theatrical and ancillary markets.⁹ The acquisition of US studios Universal and Columbia by giant Japanese electronics conglomerates Matsushita and Sony also influenced the *chaeböl*, especially Samsung, a major rival to both those Japanese companies in the manufacturing of electronics hardware. Media scholar Doobo Shim explains that Samsung, Hyundai, Daewoo and LG were “late starters aiming to establish media conglomerates,” like their counterparts in Hollywood and Japan.¹⁰ Daewoo, for instance, pledged spending of \$1.7 billion towards the development of film productions, the construction of theatres, the purchase of foreign film distribution rights, the creation of a pay television service and the expansion of a music licensing business.¹¹ Just as Time Warner or Sony pursued multiple investment opportunities across a broad spectrum of leisure activities, so too did the *chaeböl*, but with one major difference: the *chaeböl* operated media enterprises predominantly within Korea rather on a multi-national basis.

In order to create a launch pad for vertical expansion, and since they did not own studio facilities, the *chaeböl* felt it was necessary to use an independent commercial film production model similar to Hollywood’s established package-unit system. Janet Staiger describes the package-unit system as “a short-term film-by-film arrangement,” in which a producer or independent production company organises a project from its inception, securing finance and talent, the narrative property, equipment, locations, and so on.¹² Before the promulgation of the fifth amendment to the Motion Picture Law in 1986 divorced film imports from production, film companies in Korea primarily made many quota quickie films in order to secure valued import quotas. Before 1986, the interests of Korea’s artistic

filmmakers converged with those of local distributors. New Wave filmmakers who managed to develop strong ties with distributors and keep their budgetary demands low were able to flourish. It did not matter that artistic films catered to a small niche audience and were thus unlikely to earn large box office proceeds, since each production, successful or not, contributed to the desired primary outcome of obtaining import quotas. Between 1986 and 1988, distributors were able to channel their profits from the distribution of Hollywood films into local film production, sustaining Korea's low-budget art cinema and quota quickie models of production. Again, the box office earnings of local films were not vital because net rentals from Hollywood movies were returned to Korean distributors. After the introduction of US direct distribution in 1988, Korean distributors lost control of this lucrative advantage and no longer had an incentive to finance low-budget films. Money lost during the release of local movies could no longer be supplemented with revenues earned from film imports, exposing an inadequate system of production. To survive, distributors of local movies were required to compete with Hollywood films in the mainstream market, but until the re-introduction of the *chaeböl* in the early 1990s there was limited funding obtainable for the production of commercial entertainment films.

Due to the major new source of production investment the *chaeböl* offered, film companies (many of whom were formerly importers) stopped ringing alarm bells over US direct distribution and focused on competing with foreign films. Kang U-sök looked forward to the possibility of a commercially rejuvenated Korean cinema in the not too distant future:

The chaebol's participation in the film industry is very desirable, regardless of how much profit they take afterwards. In order to compete with [Hollywood] direct distribution, we need active participation of chaebol. From the perspective of Korean motion picture revitalization, we welcome chaebol capital and marketing.¹³

Recognising the success of Hollywood's independent producer model, film companies and *chaeböl* sought mutually beneficial partnerships, resolving to improve competitiveness by spending more on production. In 1994, the *chaeböl* contributed production funds to 20 of the 65 films made that year. The majority of box office hits produced over the next two years were at least partly funded by the conglomerates.¹⁴ Even low-budget filmmakers were compelled to ponder the ramifications of long-term independence from the *chaeböl*, with the MPPC going so far as to advise its non-commercial client base that, “[t]he success or failure of smaller producers depends upon their relationships with the conglomerates as investors.”¹⁵

A document produced by the Samsung Economic Research Institute describes the new mood of commercial self-accountability that rippled through the industry during this period:

The failure of Korean films in the past, affected by the direct distribution of Hollywood movies and the movement to reduce the screen quota, prompted the industry to produce “competitive” movies. In other words, the industry strove to protect the domestic market by enhancing the value

of their productions, realizing they could no longer rely on government protection.¹⁶

Following the contemporary Hollywood model, there were fewer but more expensive productions made during the mid-1990s compared with the late 1980s, a sign of health for a commercial cinema. The average number of films made each year after 1992 hovered around 60, down from an average of 105 across the five previous years. Meanwhile, the average production cost of a picture more than doubled from \$800,000 to \$1.7 million during the course of the 1990s. A few 'A' pictures cost more than \$2 million to produce.¹⁷ Due to the renewed popularity of Korean movies among mainstream audiences after 1993, exhibitors were content to book increasing numbers of local films. In addition to the inspection activities of the Screen Quota Watchers, the output of larger budget entertainment from commercial film producers played a significant role in the decline and gradual elimination of sham screen quota reports from theatre owners throughout the 1990s.

The re-emergence of *chaeböl* financing was an important step forward in terms of the overall commercial transformation of the film industry. The big spending of the nation's largest corporations helped local companies produce films that were attractive to mainstream audiences and competitive with larger budget entertainment imported from Hollywood. Domestic market share increased in small increments each year from 1994 to 1997 as mass-market film production increased, reaching its highest level (25.4% in 1997) since the advent of US direct distribution. A very slight (less than one percent) downturn in domestic market share in 1998 was the result of a strong export year for Hollywood, which released

Titanic (1997) as well as several action-blockbusters (*Armageddon*, *Deep Impact*, *Saving Private Ryan*, all 1998) and animated features (*Mulan*, *Prince of Egypt*, both 1998), capturing almost 75% of the market. Since 1999, Hollywood has failed to repeat this feat, with annual foreign film market share rising above 60% only twice.

Exclusive 'first look' and output deals between commercial production companies and the *chaeböl* became more common as the interests of both entities increasingly converged. In exchange for providing a steady flow of cash to production companies, the *chaeböl* received theatrical, home video, and/or pay television distribution options on each film those allied companies made. To ensure a regular supply of films for its multiple distribution channels, Samsung forged ties with several independent production studios, including Ikyoung Movie Production (*Marriage Story*), Uno Film (*Hoodlum Lessons* (*Kkangp'aesuöp*, Kim Sang-chin, dir., 1996), *Beat* (*Pit'ü*, Kim Söng-su, dir., 1997), *Motel Cactus* (*Mot'el söninjang*, Pak Ki-yong, dir., 1997)), Free Cinema (*No. 3* (*Nömbö 3*, Song Nüng-han, dir., 1997)) and Cinema Service (*Two Cops 2* (*T'u k'apsü 2*, Kang U-sök, dir., 1996)). Cinema Service learned valuable lessons through its association with Samsung, especially in relation to the implementation of a vertical structure, which became the dominant business philosophy at Cinema Service after Samsung and the other first-tier *chaeböl* were compelled to exit the film industry in the late 1990s as a consequence of the economic crisis.

During this period in the early 1990s when US films directly distributed into theatres dominated the Korean film market, the *chaeböl* were attracted to local film production largely due to the expansion of Korea's post-theatrical and ancillary markets. The potential opportunity to build exhibition infrastructure due

to the lack of multiplexes in the country was another major attraction. Home video production and distribution, the operation of cable television channels, print publishing and the management of music labels were growth sectors that remained free of American control, and which also provided the possibility of synergies among various *chaebŏl* divisions. Multiplexes were another growth market. Korea was under-screened in comparison with the West. In 1997, one year prior to the commencement of Korea's first multiplex construction project, there were only 497 operating screens in Korea, representing fewer than 11 screens for every one million people.¹⁸ In comparison, screen coverage in America was ten times denser than in Korea, with the 31,865 screens across the United States representing more than 115 screens for every one million citizens.¹⁹ Australian moviegoers shared the country's 1050 screens on a basis of 57 screens per one million people in the same year.²⁰ Reflecting the nation's deficiencies in exhibition, Koreans attended movies less than once per year on average in the mid-1990s, a very low figure compared to America (five annual visits per person) and Australia (just over four visits per person).²¹

"We're going into the film business step-by-step," explained the general manager of Samsung Entertainment Group's strategic planning team, hinting that the conglomerate had plans to establish a range of divisions in the entertainment sector.²² To exploit these markets, the *chaebŏl* required a film production platform that commenced with exhibition in the theatrical market. In addition to creating box office revenue, the theatrical release of a mainstream film serves (a) to promote the film's impending circulation on a range of post-theatrical platforms, and (b) to form associations between the film's textual material and a host of tie-in products that are immediately available for public sale. By treating film

production in this way, Korean conglomerates have emulated the ‘transindustrial activities’ that historian Janet Wasko argues comprise the central business practices of the corporations that own Hollywood film studios.²³

Compared to American and Japanese conglomerates, the *chaeböl* were very late to get involved in ancillary markets and multiplex construction. The home video market peaked soon after the re-emergence of the *chaeböl*, before abruptly entering a decline. Pay television did not develop as quickly as expected, while plans to construct multiplexes were unveiled on the eve of the crippling economic crisis. As a consequence, the following account tracing the rapid rise of vertically and horizontally integrated *chaeböl* entertainment subsidiaries is closely succeeded by a discussion of their swift departure.

3.2 Home Video Distribution

At first, the film investment decisions of the *chaeböl* were based on synergies with the consumer video industry. Each *chaeböl* aimed to create horizontal links between its numerous entertainment divisions and its video manufacturing subsidiary whereby overall expenses could be shared between each and net revenues increased.²⁴ “Our first goals are to build a cinema network and a good homevideo distribution network,” explained the Hyundai Broadcasting System upon the launch of its film division in 1996.²⁵

Samsung, Daewoo and LG were all among the world’s largest manufacturers of videocassette recorders and blank videotapes at the time, thus each stood to benefit from increased sales of those items. Since the manufacturing of video hardware and software is just one small facet of the consumer video market, the

chaeböl also became interested in the distribution of pre-recorded videotapes to retailers. During the mid-1990s, the Korean home video market was more lucrative than theatrical box office. Rentals and sales of videos earned \$270 million in 1995, almost 10% more than the country's total theatrical box office revenue of \$248 million.²⁶ In order to gain a foothold in the home video distribution market, the *chaeböl* required a steady stream of popular film content to pre-record on its videotapes. Purchasing the rights to foreign films, pre-recording copies of them on video and wholesaling the videotapes was one option to consider, but this scenario reduced profit margins due to the high cost of imported films and the necessary payment of royalties on each sale. It was in this manner that Samsung handled local video distribution for Warner Home Video and Buena Vista International.²⁷

An alternative option was devised to supply nascent video distribution businesses of the *chaeböl* (e.g. Samsung's Dream Box and Daewoo's Wool Video) with more affordable local films. Pre-sales involving the purchase of domestic video distribution rights formed the basis of the investment agreements reached between the *chaeböl* and Korean producers of commercial entertainment films. Comparatively well-funded filmmakers supplied a library of film titles for the *chaeböl* to put on retailers' shelves. In the process, many expenses incurred in the manufacturing, pre-recording and duplication of videotapes were carried over as revenue to another subsidiary of the conglomerate. Within this horizontally and vertically integrated system, the *chaeböl* served as film investor, video producer, video distributor and/or wholesaler, recovering up to 70% of home video revenues. All but the video retailers' share of rentals and sales could be recouped.

During this period of intense focus on the uplift of home video distribution, theatrical distribution and video retailing remained beyond the typical scope of activities for the major conglomerates. Rather than handle the theatrical distribution of films themselves, the *chaebŏl* initially sought guarantees to ensure that the theatrical release of a picture would remain comparatively brief, usually fewer than three months. Obtaining a substantial share of the video retailing sector was simply not a practicable option, since up to 90% of Korea's vendors were located within small family-owned convenience stores scattered across the nation. Around the time of the 1988 Seoul Olympics there were an estimated 40,000 video outlets across the country, an enormous number suggesting that videos were as readily available as consumer necessities like *kimchi* and rice even though the corporatisation of the sector through video retail franchises was extremely limited. While the figure had dwindled to 16,000 by the late 1990s, this was still twice the number of video outlets found in Japan, representing one store for every 3,000 people in Korea compared to one for every 16,000 in Japan.²⁸ None of the *chaebŏl* expressed any significant desire to assimilate this sprawling video retail sector within their conglomerate structures.

The earliest picture to obtain a pre-sale for video distribution with the Samsung Entertainment Group was *Marriage Story*, representing another landmark achievement for the film. Some of the other films the Group co-financed included *To the Starry Island* (*Kŭsŏm e kagosipta*, Pak Kwang-su, dir., 1993), which was a joint production with the UK's Channel Four, *A Hot Roof* (*Kaegat 'ŭn narŭi ohu*, Yi Min-yong, dir., 1995), *Eternal Empire* (*Yongwonhan cheguk*, Pak Chong-won, dir., 1995), *Three Friends* (*Se ch'ingu*, Im Sun-rye, dir., 1996), and *Cinema on the*

Road (Chang Sŏn-u, dir., 1996), the Korean segment in the British Film Institute's Century of Cinema series.

Newsweek International has argued that the *chaebŏl* were responsible for "churning out B movies on tiny budgets," an assessment that could more accurately be applied to the quota quickie period in the 1970s and early 1980s. Inevitably, there were boorish, technically inferior films produced as a consequence of the financial deal making between opportunist filmmakers and the conglomerates, but, *chaebŏl* finance was also behind some of the period's major artistic successes. Daewoo contributed to the production budgets of Chang Sŏn-u's *To You, from Me* (*Nŏ ege narŭl ponenda*, 1994) and *A Petal* (*Kkotnip*, 1996), as well as Pak Kwang-su's *A Single Spark* (*Arŭmdaun ch'ŏngnyŏn Chŏn Tae-il*, 1995). Meanwhile, Yi Kwang-mo's *Spring in My Hometown* was a product of the SK Group.²⁹

The success of the home video market was not long lasting, which was problematic for the *chaebŏl* given their late entry. Synergy between video hardware units and sales of video software proved underwhelming. After peaking in the mid-1990s, revenues from video rentals and sales diminished throughout the rest of the decade. The 7.8 million unit sales of videos in 1998 represented a 40% decline from the 12.8 million units sold in 1995.³⁰ Audiences were no longer prepared to wait up to three months for a film to be released on video, which was fast becoming an outmoded media for audio-visual recordings. Viewers commenced returning to movie houses as growth in the theatrical exhibition sector offset, and contributed to, the decline of the home video market.

The proliferation of video and DVD *bangs* (viewing parlours for hire) was also responsible for the decline of video rentals and sales. An innovation in video

consumption, each *bang* offers couples or a small group of viewers the experience of watching a film together in a secluded environment similar to a home mini-theatre. Viewers may share the cost of renting the room and the movie, but the most important benefit of *bangs* are that they provide a private space outside of the home for the consumption of entertainment. For this reason, *bangs* are especially popular among teenagers and young couples seeking leisure time at a distant remove from parental supervision.

Increased competition for leisure time was another reason for the decline of home video. Internet gaming rooms (PC *bangs*) became more popular in the late 1990s, keeping would-be video consumers in front of computer monitors. In 2002, there were more than 26,000 gaming parlours in Seoul alone.³¹ The *Starcraft* computer game sold 900,000 units in Korea, more than anywhere else in the world. Demonstrating the enormous popularity of PC gaming among Koreans, it was estimated that 30-50% of teenagers in Korea played the game.³² Total spending on *Starcraft* software was equivalent to 4.5 million theatrical admissions, approximately the number of tickets sold for the year's number one box office film, *Titanic*.³³

Korea's high-density network of small independent vendors presented a final unavoidable problem for *chaeböl* video distributors. Lacking purchasing power and the capacity to absorb loss due to under-performing units, retailers were not prepared to offer a broad range of titles in stock. Nor were copies of high demand movies carried in depth. Due to the observance of first-come first-served principles, vendors lost customers. Similar costly inefficiencies were manifold. Introducing a coordinated nationwide tracking system for all video sales was not a simple matter, so *chaeböl* relied on collecting sales data on a discrete basis with

each vendor. Complications such as these meant that home video was not as profitable as the *chaeböl* desired in the long-term.

3.3 Cable Television

The *chaeböl* continued to follow the strategies of major Hollywood studios when they embraced cable television as a secondary post-theatrical platform in the mid-1990s. The government believed the cable-related market would be worth up to \$17 billion by the end of the 1990s, and heavily controlled pay television services when they first commenced in Korea in 1995.³⁴ Similar restrictions to the ones that had regulated motion pictures prior to the late 1980s were imposed on the cable industry, especially regarding foreign content. The government permitted no more than 50% foreign programming on sports and documentary channels, just 25% on music channels, and 30% on all other channels, including those devoted to entertainment.³⁵ Unlike theatrical exhibitors, which managed to circumvent the screen quota, cable program providers found it difficult to avoid these restrictions. The *chaeböl* were barred from owning any of the local cable systems and from operating news service channels, but they were allowed to develop entertainment channels. Samsung, Daewoo and Hyundai became important cable broadcasters, respectively establishing the film and entertainment channels Catch One, the Daewoo Cinema Network and HBS (Hyundai Broadcasting System) in addition to four other channels between them. Considered the most potentially profitable programming services, the three entertainment channels became important outlets for the promotion and transmission of the film productions in which each conglomerate held rights.

The government's heavy restrictions on foreign content meant that Korean film and television producers were required to supply at least 50-75% of pay television's programming. Since the cable industry relied on public subscriptions and advertising for the bulk of its income, operators required broadly popular content in order to attract mainstream audiences and big-spending clients. Janet Wasko has noted that the availability of recently released Hollywood movies is one of the central reasons subscribers in America are attracted to cable television.³⁶ A comparable situation figured in the genesis of pay television in Korea. Along with the Tooniverse cartoon channel, movie channels like the Daewoo Cinema Network quickly became the most popular in the country.³⁷ It was evident that many Koreans subscribed to cable stations in order to watch new movies and cartoons. Since foreign films could be programmed for no more than 30% of the time, the *chaeböl* movie channels were forced to obtain the rights to a large number of recent and reasonably popular local films. Where were these films going to come from and who was going to pay for them? In a similar fashion to the relationship between movie producers and home video distributors, the answer involved the *chaeböl* offering pre-sale incentives to select producers of commercial films in return for cable transmission rights.

Much to the dismay of both the *chaeböl* and the government, pay television did not immediately take off in Korea. The cable industry lost \$375 million in its first year of service and thereafter did not improve anywhere near as much as expected.³⁸ Low penetration of cable services was a major complication. Only 12% of the nation's households were subscribed to cable in 1999, four years after the introduction of the service.³⁹ As a result, advertising sales were sluggish. There was also stiff competition from free-to-air television. The country's three

major free-to-air networks, KBS, MBC and SBS, were all involved in the production of popular local content for television. Melodrama series developed by the stations were especially popular with local viewers. Since 1992, more than 100 TV dramas broadcast on free-to-air television have achieved TV ratings in excess of 36%. Of these, four of the top six highest rating dramas were originally aired on broadcast television between 1995 and 1998. (The four shows included the most popular, *First Love*, a 66-episode melodrama starring Pae Yong-joon and Ch'oe Chi-u, which at the height of its broadcast in 1997 secured ratings of 65.8% for KBS.) Viewers evidently favoured the entertainment that remained freely available when alternative programs on pay television were first introduced. Catch One's programming and acquisition manager bemoaned the fact that Koreans weren't used to the "premium" service that cable operators offered. "They don't think they have to pay for TV," he protested.⁴⁰

Another obstacle to cable penetration were the 150,000 satellite television dishes illegally installed in the country, especially around Busan. Government-sanctioned direct broadcast satellite technology was not available in Korea until 2001, but some households that had satellite dishes installed during the 1990s were able to receive the digital broadcasts from Japan's NHK-Satellite TV network.⁴¹

While prepared to lose money during the expensive rollout of cable networks, operators and entertainment providers suffered heavier financial losses than forecast as a result of the subscription shortage. It would be several more years before cable subscriptions increased to a level that was sustainable for service providers. In the meantime, finance from pay television migrated into the hands of

motion picture producers who welcomed the addition of a new post-theatrical market for domestic films in Korea.

Faltering sales in home video distribution and pay television subscriptions discouraged the *chaeböl* from spending in those markets. Having linked their film production activities to less than successful post-theatrical revenue streams, the *chaeböl* channelled funds into the construction of multiplex venues for the theatrical market. In this way they hoped to stimulate ancillary markets. An exhibition sector dominated by multiplexes leads to a compression of first release and overall release duration, thus encouraging the sale of film productions to video and pay television.

3.4 Improving the Theatrical Exhibition of Korean Films

Vertical and horizontal integration strategies have been the enduring legacy of the *chaeböl*. With their solid financial resources, the *chaeböl* were able to solely or jointly produce larger-budget films and join American distributors in the nationwide circulation of those films to theatres. Benefiting from Korea's relaxed anti-trust laws, the *chaeböl* set about orchestrating an overhaul of the exhibition circuits as well.

The first multiplex in Korea was not constructed until 1998, very late compared to other national markets, especially those in the West. The government's restriction on the number of prints allowed in circulation, which was only lifted in the early 1990s, obstructed wide release strategies and discouraged spending on multiplexes. Throughout the mid-1990s, the *chaeböl* concentrated on developing ancillary markets and enhancing local film production rather than building new

venues for exhibition. Several American companies were keen to invest in multiplex construction in Korea, but only if the government terminated the screen quota system.⁴² At the time, the government preferred to keep the quota in place, perhaps realising its importance for future negotiations with the US.

Consequently, the multiplex construction boom in Korea commenced at a time when growth in multiplex screens was already beginning to slow in American and Western European markets.⁴³

Before multiplexes were built in Korea, single screen theatres dominated the exhibition landscape. Due to the growth of the home video market from the early to mid-1990s, hundreds of older, smaller, second- and third-run theatres were forced into closure.⁴⁴ Between 1990 and 1997 more than one-third (just under 300) of the nation's screens were forced to close. The result was a chronically under-screened market.

The paucity of screens in Korea reflected a similar situation in Japan, India and China, three of the largest Asian cinemas. Due to a lack of large multiplexes, fewer than 2,000 screens serviced Japan's film market in the late 1990s, resulting in a remarkably low 16 screens for every one million people.⁴⁵ There were an estimated 2,000 screens in China, extremely minimal coverage for a country with 10 times the population of Japan. The scenario was almost as bad in India. According to 1996 figures, only 12 screens were available for every one million patrons in India, with up to 30% of that nation's 13,100 total screens used on a temporary basis only or purely for the benefit of military personnel.⁴⁶

To make up for the shortfall in screens, existing exhibitors pumped funds into the reconstruction of deteriorating theatres and into the 'twinning' of single-screen cinemas. With more financial muscle to support their enterprises, the *chaeböl*

unveiled ambitious multiplex construction projects, all of which were eventually sold to different companies for completion after the monetary meltdown.

Many of the existing theatres in Korea were in need of an overhaul, compounding the problems associated with underdevelopment in the exhibition sector. Lack of funds to improve facilities (to install new seats and digital sound systems, for instance) was partly responsible for the 300 theatre closures in the 1990s. Theatre owners also found it difficult to cope with falling ticket sales in the early 1990s and the cost of property rental, which continued to increase along with the rapid growth of the Korean economy before the onset of the economic crisis. By improving the condition of theatres, increasing the number of screens available per site, and constructing new venues, the *chaeböl* who entered exhibition from the mid-1990s hoped to bring patrons back to theatres in the long-term.

There were several ways the *chaeböl* gained control or ownership of existing theatres. Refurbishment funds were offered to theatre owners in exchange for managerial control over key operations, such as over film bookings, ticket and concessions pricing, and promotional activities. Another favoured strategy involved leasing particular screens housed in multi-screen complexes. Not quite the same as a standard multiplex, in which all screens can be accessed from one central foyer, these venues consisted of a handful of disconnected screens spread over several floors of a building or department store. The *chaeböl* also undertook renovation of neglected second-run theatres with the intention of transforming them into first-run theatres.⁴⁷ Under these kinds of arrangements, Samsung obtained eight theatres between 1994 and 1997. Daewoo paid \$38.6 million to Woojing Film for ownership of the six screens at Seoul's Cine House in the

upmarket Gangnam-gu district in 1995.⁴⁸ Daewoo also acquired fourteen single screen theatres in outlying suburbs of the Korean capital.

Theatre acquisition was important because it enabled a *chaeböl* to guarantee first-run screens for the productions it had invested in, thereby bolstering potential box office earnings and revenues from post-theatrical markets. It was also in the best interests of the *chaeböl* to screen local film productions in the theatres they controlled because exhibitors recouped a greater share of net rentals from domestic titles. For the *chaeböl*, investment in exhibition and commercial film production were compatible businesses.

Due to the capacity of the *chaeböl* to centralise film bookings for a stable of various theatres, as well as to create promotional material of use to all of those theatres, coordinated marketing campaigns and wide release distribution strategies also became a reality. Bigger openings were desirable for the *chaeböl* because they promised greater box office, compressed theatrical release windows, and accelerated post-theatrical sales.

Wider releases were obtained by producer/distributors who were able to set aside extra funds for prints and advertising, i.e. those who benefited from *chaeböl* investment packages. Once again it was the success of *Marriage Story* that led the way, opening on six screens in Seoul in 1992 when most films were still limited to one screen. After *Marriage Story*, multi-screen openings became the norm. An important exception was *Sopyonje*, which opened on just one screen in Seoul and yet managed to remain in theatres long enough to achieve significant box office success. *Sopyonje* was a rare example, a runaway hit that emerged from a limited release campaign. Reflecting the sudden increase in demand for *Sopyonje* among

viewers, more prints were allocated to theatres such that five screens in Seoul were running the film at the height of its popularity.

Film openings in Seoul increased in width throughout the mid-1990s. The 55 films theatrically released in 1996 opened on an average of 4.3 screens. Only one film that year (*The Adventures of Mrs Park* (*Panbonggon kich'ulsagŏn*, Kim T'aekyun, dir.)) opened on more than ten screens. The 59 films screening in theatres in 1997 were released almost 150% wider, averaging 6.3 screens per opening. Eleven of those films opened on ten or more screens, including the year's two most popular films, *The Letter*, which was opened on a record 15 screens, and *The Contact*, which peaked at 21 screens during its release after a smaller 7-screen opening.⁴⁹

The traditional single screen environment of the nation's exhibition sector was not conducive to the new wide release strategies of major film distributors. The acquisition of existing first release theatres and renovated subsequent-run theatres was a short-term, small-scale solution to obtaining vertical integration, and one that relied on the cooperation of theatre owners who were willing to do business with the *chaebŏl*. In order to establish large-scale media empires in the long-term, the *chaebŏl* formulated plans to supplement and eventually replace the outmoded theatrical exhibition sector with newly constructed multiplexes.

The top-tier *chaebŏl* were keen to build multiplexes in Korea in order to gain control over the theatrical market. Planners at Daewoo felt that the current exhibition sector failed to cater to the needs of a wide range of viewers, arguing that spectators over the age of 30 were especially deterred from attending dilapidated theatres due to a lack of comfort, convenient facilities and parking space. With modern, carefully situated and well-designed multiplexes, Daewoo

believed that it could “create a new market” by enticing discouraged viewers back to the cinema.⁵⁰

Remarkably, none of the top-tier *chaebŏl* managed to actually build a multiplex, even though three of the major conglomerates unveiled imposing plans for nationwide multiplex development starting in 1998. Daewoo intended to build up to 20 multiplexes with a total of 100 screens before 2002. Samsung wanted to establish a nationwide network of 150 screens by 2005. Hyundai aimed for 55 screens by 2000. These proposals were announced during the height of the economic crisis, a time when the government refused to sanction the expansion of *chaebŏl* empires. Due to the intervention of the International Monetary Fund, new reform measures required the debt-gearred conglomerates to reduce outlays on expensive projects and withdraw from under-performing markets. In addition to the high cost of commercial real estate and the prospect of slender box office returns in the short term, the stricter emphasis on debt management after the crisis convinced the *chaebŏl* to reluctantly abandon their multiplex construction plans.

3.5 Rising Cost of Imports

Local pictures carried the potential to earn more money for the *chaebŏl* in the long term. Yet, while it was in the best interest of *chaebŏl* theatre owners to fill screens with films in which they held investments, imported films remained more popular and more profitable than Korean movies throughout the mid-1990s. Given that the relative popularity of imported and domestic films was always fluctuating, a healthy import business remained a vital component of the *chaebŏl* entertainment subsidiaries.

Due to the presence of Hollywood's direct distribution system, major American studios were able to circulate films on Korean screens without the intervention of a local importer. Local exhibitors kept an average of forty percent of revenues from ticket sales to American films, while Hollywood studios collected the remaining 60% as a distribution rental. Participation in the ownership of theatres earned the *chaeböl* a part of this income, but it was not preferable to share proceeds with American companies. In order to circumvent direct distribution and obtain the distribution rights to American films in the Korean market, the *chaeböl* offered Hollywood film companies production finance in the form of output deals and pre-sales. American production companies and independent distributors were keen to secure agreements with international investors in order to keep up with increasing production and marketing costs in Hollywood. Justin Wyatt has discussed the importance of pre-sales for the major independent companies in Hollywood around this time, especially Miramax and New Line, since they needed to secure finance for high-budget films.⁵¹

New Line was Daewoo's chief investment beneficiary in America, to whom Daewoo offered 5% to 6% of a film's production budget in return for Korean distribution rights. In this way, Daewoo gained the rights to *The Long Kiss Goodnight* (1996), *Last Man Standing* (1996), and *The Island of Dr Moreau* (1996), among other films. Similar investment and distribution arrangements were struck between other Hollywood studios and *chaeböl* entertainment divisions. These included output deals between the Samsung Entertainment Group and the New Regency production company (garnering Samsung eight films per year), and isolated pre-sale arrangements for individual films between Hyundai and Miramax (*The English Patient*, 1996), Hyundai and Studio Canal Plus (*Turbulence*, 1997),

the SK Group and Cinergi (*Evita*, 1996), and between SK and Mandalay (*Donnie Brasco*, 1997).⁵²

Collectively, the *chaeböl* imported about 40 foreign movies out of the 350 entering the country each year during the mid-1990s. Most of the films they imported were major independent US productions aimed at mainstream audiences. However, this practice of obtaining films through output deals and pre-sales proved unsustainable and generally unprofitable. Due to escalating Hollywood production budgets, pre-sales became expensive affairs, especially for an emerging and still relatively small market like Korea's. Daewoo spent \$4.5 million obtaining the rights to *The Long Kiss Goodnight* and \$3.5 million on *Last Man Standing*, far more than the average production budget of a local production made during this period. In order to break even on *The Long Kiss Goodnight*, Daewoo had to sell more than 1.5 million tickets nationwide, a difficult proposition considering that fewer than ten films each year were triggering such interest. Instead, the picture flopped on local release, as did *Last Man Standing* and *The Island of Dr Moreau*. The terms of Daewoo's arrangement with New Line were so costly that in 1997 the *chaeböl* was compelled to re-negotiate an output deal valued at 3% to 3.5% of a production's budget, which was more in keeping with the Korean market at that time.⁵³

Unprecedented spending on imports was common among all the *chaeböl*. In 1996, the *Hollywood Reporter* found that among the 36 countries who were the largest importers of American films, Korean companies paid the second highest average price, and the most within Asia.⁵⁴ Intense competition for distribution rights to American films drove up costs. After paying \$5 million to Carolco for global box office failure *Cutthroat Island* (1995), Samsung suffered a massive

loss. Another Samsung acquisition, *The Fifth Element* (1997), earned a respectable \$4.7 million upon theatrical release, but since it cost \$5 million to acquire it also failed to turn a profit.⁵⁵

3.6 Elimination of Censorship

Alongside the escalation of film production in Korea, the mid-1990s witnessed a uniform relaxation of film censorship. In 1979, the Pak Chǒng-hŭi government had handed over control of film censorship and classification to the newly established Public Performance Ethics Committee (PPEC), a group that enforced rigorous censorship of Korean film production under successive governments. After an October 4, 1996 ruling declared that government censorship of films was a breach of the constitution, the PPEC was disbanded. The state brought in a more transparent and autonomous classification ratings system (the Media Ratings Board) to replace its restrictive censorship bureaucracy, resulting in much greater freedom of expression for Korean filmmakers.

Until the landmark 1996 decision was passed down, the PPEC was permitted to ban or force cuts to any film that criticised Korean government or society. Empowered to remove scenes they regarded as impairing the spirit, dignity, morals, foreign relations of Korea and the ‘soundness’ of the Korean people, the PPEC was also authorised to outright reject films for classification, including almost half of the films submitted in 1992.⁵⁶ In the wake of Hollywood’s intense lobbying in the late 1980s for access to the Korean market, local movies suffered at the hands of the PPEC’s classifiers to a greater extent than American pictures. Park Seung-hyun has explained how Hollywood action films (*Terminator 2*:

Judgement Day, 1991), horror movies (*Freddy's Dead: The Final Nightmare*, 1991), thrillers (*The Hand that Rocks the Cradle*, 1992) and movies depicting explicit sex scenes (*The Bodyguard*, 1992), received young-adult (15 years or over) ratings in comparison with similar Korean films that received stricter adult (18 years or over) ratings.⁵⁷ Due to this imbalance in the accepted standards of local and foreign entertainment, Park argues, the restrictive controls of the Korean censors turned young people away from domestic movies. Given the importance of the youth demographic to mainstream film producers, the mid-1990s eradication of such forms of age discrimination has to be considered a major factor in the rejuvenation of admissions to Korean films.

The unpredictability of censorship before 1996 hampered investment in local production, since investors could never be certain that a film would go into theatrical release. Under the Media Ratings Board far fewer films have been refused classification, boosting the attractiveness of production to investors. The Board has exhibited leniency towards filmmakers regarding formerly taboo topics such as those involving social and political criticism, graphic violence and some depictions of sex. Nudity, homosexuality and unconventional sexual behaviour remained a central concern, but the Board has not been permitted to make cuts to a scene without the permission of the film's producers. This measure has forged closer ties between the censorship body and the production sector, obliging the Board to consult with film companies on matters concerning unacceptable footage.⁵⁸

3.7 Economic Crisis

The full range of causes and outcomes of the 1997/98 economic crisis are too large and complex for a study of this size, but a brief summary of the general economic conditions surrounding the event illuminates its enormous significance. At the beginning of 1997, Korea was the eleventh largest economy in the world, and it had just been ratified as the twenty-ninth member of the Organization for Economic Cooperation and Development.⁵⁹ High GDP growth had been recorded every year since the end of the Korean War, exceeding 9% in the mid-1990s. Analysts who had long considered this figure unsustainable would soon prove correct. Due to the government's inconsistent monetary policy and the extremely debt-gearred environment of Korea's banking and corporate sectors, the economy was inadequately positioned to withstand the financial crisis when it struck in the middle of 1997.

Slower economic growth, which dipped under 6% in the first quarter of 1997, was responsible for triggering the fiscal crunch in Korea, weakening cash flow in the corporate sector and triggering a broad spectrum of insolvencies. The subsequent escalation in non-performing bank loans reduced the confidence of foreign lenders and investors, who fled the market in pronounced numbers. Consequently, there was a rapid and acute devaluation of the Korean *won*. Despite the government's risky decision to defend the currency, Korea was propelled into a massive foreign exchange crisis that depleted liquid assets and triggered an increase in unemployment.⁶⁰

Upon request from the Korean government for financial assistance, the International Monetary Fund (IMF) made available a \$58.35 billion bailout

package. The immediate consequences of both the financial crisis and the IMF bailout were severe. Interest rates skyrocketed, leading to even more bankruptcies and higher unemployment. Heightened nationalism among Korean consumers was a particularly noticeable side effect of the country's economic plight. With the Korean *won* plummeting on the currency markets, in late 1997 the government convinced thousands of Koreans to donate their personal holdings of US dollars and gold. Economic policy analyst Christopher Dent has colourfully described how Korean consumer associations:

conducted 'frugality campaigns' ... to resist the purchase of luxury (i.e. imported) goods [since] the procurement of such goods was generally considered disloyal to the national economic cause ... Elsewhere in the country reports abounded of how foreign-made cars were frequently being refused service at gas stations, while foreign fast food chains were compelled to advertise that their produce was 100% home-grown to avoid consumer boycotts.⁶¹

Drastic circumstances like these were so widespread that they have compelled Kim Kyung-hyun to argue that the economic crisis "revived nationalist sentiment on a popular level," directly influencing the cinematic preferences of Korean spectators.⁶² Citing a 2% drop in attendances for foreign films around this time, the President of the Korean Film Critics Society asserted that "a patriotic trend" had affected viewers' tastes.⁶³

Similar negative sentiments towards imported products were revealed when *Titanic* was released in Korea during the phase of economic reform and recovery

in early 1998. Citizens who were concerned that the US blockbuster might “drain out as much precious foreign currency as the nation’s mass gold-selling drive brought in” staged boycotts.⁶⁴ It seems likely that the persistence of national anxiety towards foreign products contributed to the surprisingly small returns of *Titanic* in comparison with the rest of the world. Earning a relatively scant \$20 million in Korea, the highest grossing picture in the world was surpassed in Korea just twelve months later when *Shiri* earned almost \$26 million through local theatres.

In the months following the onset of the economic meltdown, Korea’s established film institutions were placed under incredible strain. Production funds dried up, especially for smaller independent film companies, decreasing the total number of films made in Korea from an average of 64 in the mid-1990s to just 43 films in 1998. While production budgets for individual films remained stable at around \$1.2 million, total spending on all film productions diminished by more than 15% in the year after the fiscal collapse.⁶⁵

The sudden depreciation of the local currency, which saw the Korean *won* lose half its value against the US dollar between October and December 1997, resulted in a steep and prohibitive rise in the cost of Hollywood films.⁶⁶ Korean importers could no longer justify purchasing popular American films at the standard pre-crash asking prices. Subsequently, there was a reduction in the number of films brought into the country. Just 296 foreign films were imported in 1998, a 30% drop compared to 1997 when 431 titles were acquired from overseas. Fewer imports were also the result of a mercantile collapse, with at least twelve of Korea’s eighty-three registered film import companies going out of business.⁶⁷

Chaeböl entertainment divisions were hit hard by the crisis. The post-theatrical and ancillary markets that drew the *chaeböl* to the film industry in the early 1990s were more adversely affected than Korea's theatrical market, which actually improved during the crisis in terms of total admissions. Home video sales and rentals plummeted 30% in 1997. Further losses saw revenues sink to \$170 million in 1998, down almost 40% compared to 1995.⁶⁸ Cable subscriptions and advertising sales slowed during the crisis, further accentuating the losses suffered in pay television since its unsuccessful launch in 1995. Since they had not yet completed the construction of multiplex circuits, the *chaeböl* were over-reliant on these ancillary markets.

Shrinking sales from TV advertising also disadvantaged the broadcast sector. At the Seoul Broadcasting System (SBS) there was a 25% decline in the total number of advertisements placed in 1997 compared to 1995, reflecting the widespread reduction in feature film marketing budgets as well as the advance of the Internet as a cheaper and increasingly popular promotional medium.⁶⁹ The subsequent hiring freeze instituted at SBS was not an uncommon occurrence. Due to the monetary crunch, other media companies were forced to dismiss large sections of their labour force. In the immediate wake of the crisis, Samsung Entertainment Group retrenched 250 employees, more than half its operating personnel.⁷⁰

As the prices that importers were prepared to pay diminished, Hollywood studios became more inclined to directly distribute their own pictures rather than license distribution rights to Korean companies. Consequently, direct distributors such as United International Pictures and Twentieth Century Fox released more pictures themselves, opening 67 films in 1998 compared to 53 in 1996. Total

admissions to directly distributed films rose 50%, from 14.8 million in 1996 to 22.6 million in 1998. However, the decline in the value of the *won* against the US dollar in 1997/98 offset any monetary gains for American companies from increased attendances to films in Korea.⁷¹

The rise in total theatrical admissions was one of the few positive outcomes of the 1997/98 crisis for the Korean film industry. Nationwide attendances to both domestic and imported films had plunged to a nadir in 1996, falling below 45 million for the first time in twenty-one years. However, due to the deliberate commercialisation strategies (fewer films, bigger budgets, broadly popular content, refurbished theatres, vertical and horizontal integration) of mainstream film producers and *chaeböl* investors throughout the 1990s, domestic films gained in popularity and attendances climbed again during the crisis. Between 1996 and 1998, total nationwide admissions increased almost 20% from 42.2 million to 50.2 million. Attendances at domestic films increased at a faster rate than foreign films, rising 30% in the same period and reversing the downward trend in domestic market share for the first time since the onset of direct distribution in the late 1980s.

Since independent Korean film companies were less exposed to the *won* than the *chaeböl*, they were able to offset losses caused by the free fall of the local currency, benefit from the increase in overall theatrical box office, and withstand the crisis to a greater extent than the conglomerates. However, acquiring scarce film finance for making new films remained a challenging stumbling block for local producers and distributors. Exacerbating this problem was the departure of *chaeböl* capital from media industries in the wake of the economic crisis.

3.8 Withdrawal of the *Chaeböl*

Almost one third of the top thirty *chaeböl*, together accounting for 16% of Korea's GDP in 1995, were brought down by the 1997/98 monetary squeeze.⁷² During the crisis, public hostility towards the *chaeböl* emerged in an intense and widespread form. The family-owned conglomerates had made an enormous contribution to the rapid growth of Korean industry since the late 1950s. While this achievement was widely acknowledged, the economic crisis revealed the alarming depths of corporate cronyism among the *chaeböl* and their collusive ties with the government. In return for preferential access to cheap, government-directed credit and the opportunity to undertake lucrative construction and manufacturing contracts, *chaeböl* leaders regularly funded political campaigns and provided illicit kickbacks to Korean politicians and bureaucrats.⁷³

In return for its aid package, the IMF stipulated that the Korean government institute wide ranging economic reforms. These included measures to increase competition among firms, to liberalise trade, and to separate the conglomerate formations of the major debt-burdened *chaeböl*, who were additionally banned from starting new commercial enterprises. As a result of the government's constriction on their business operations, the *chaeböl* concentrated on safeguarding their core industries and thus they were willing to divest their more recently incorporated, and far riskier, entertainment subsidiaries.

Disappointing theatrical box office returns and sagging performance in their video distribution and cable television divisions further dissuaded the *chaeböl* from persevering with their conglomerate media ventures.⁷⁴ In the mid-1990s, the top four *chaeböl* and the SK Group spent in abundance as they competed with one

another in their attempt to capture market share and attain vertical integration within the film industry. In the immediate wake of the economic crisis, each felt the pinch due to their overspending on film imports, the lack of penetration of their pay television infrastructures, and the long-term nature of their expensive multiplex construction investments. By late 1997 signs emerged that the *chaeböl* entertainment divisions were downscaling their undertakings and carefully assessing their position in the film market. The economic crisis “does not affect our plans to build multiplex cinemas,” asserted a representative of Daewoo, “but we will be very cautious about investing in big-budget U.S. films.”⁷⁵ According to the *Variety International Film Guide*, “Samsung’s audiovisual subsidiary registered a 13 per cent fall in revenue in 1998’s first quarter,” while “the comparable unit at Daewoo dropped eight per cent.”⁷⁶ Losses such as these were hard to defend against scrutiny from the IMF and the government.

“Once one of the top 10 foreign territories for U.S. films, Korea is fast evaporating as a meaningful co-investor and buyer of U.S. pictures,” claimed *Variety* as it reported on the “seismic tremors” the financial decline in Korea had caused among producers and exporters in Hollywood.⁷⁷ Among the affected parties were sales agents and financiers at the American Film Market (AFM) in early 1998. Concerned with diminishing trade in the entire Southeast Asian region, various AFM dealers indicated that the loss of their Korean partners was a substantial blow, especially with respect to funding low-budget action movies through distribution pre-sales.⁷⁸

The gradual withdrawal of *chaeböl* capital throughout 1998 and 1999 brought about a significant shift in the organisation, control and ownership of Korean film properties. First to exit was SKC, the entertainment subsidiary of the SK Group,

who ceased their video and film production, import and distribution activities in January 1998. The following year, Daewoo amalgamated its handful of home video production and distribution outfits with Seum Media, its 50% owned music division. Despite the earlier optimism regarding its outlook in future exhibition developments, Daewoo totally exited from the motion picture business in May 1999. The final picture Daewoo financed through Seum, *Calla* (1999), flopped upon its September release. *Shiri* was the last picture financed and distributed by Samsung, who had already brought their film production involvements to a halt by the time of the blockbuster's release in early 1999.⁷⁹ Hyundai and LG also severed ties with their media divisions and thus ceased investment in the local film industry.

During the period they controlled Korean cinema, one of the major failures of the *chaeböl* was that they did not set out to regionalise the domestic cinema and thus were almost completely reliant on revenues earned at home. Samsung successfully released *The Gingko Bed* on 24 screens in Hong Kong in 1996, and also invested \$1 million in Wong Kar-wai's *Happy Together* (1997) in exchange for 20% of all its international sales, but these were isolated ventures rather than the cornerstones of any long-term strategy. Samsung's helter skelter approach to transacting entertainment business overseas was reflected in their export sales of *The Gingko Bed*, which was sold to relatively distant locations like Germany, Brazil and even Ecuador before a Japanese buyer had emerged.⁸⁰ Today, Korean film producers are acutely aware of audience trends and the buying patterns of distributors in Japan since it is easily Korean cinema's most lucrative export market.

The younger existing corporations and newly formed companies that assumed control of the media and entertainment industries in the aftermath of the economic crisis resumed several of the long-term projects that *chaeböl* media subsidiaries were forced to abandon, including the establishment of fee-paying broadcast services and multiplex construction. CJ Entertainment, Cinema Service and a handful of other well funded and professionally managed film companies learned from the rise of the *chaeböl* in the early 1990s that the vertical integration of production, distribution and exhibition operations was an effective commercial strategy in the domestic film market. Rapidly, they established dominating vertical empires that dwarfed those erected by *chaeböl* media subsidiaries in the mid-1990s. Regardless of the sudden exit of the *chaeböl*, big business would remain instrumental in the revitalisation of Korean cinema.

Notes

¹ Interviewed by Jang Sun-woo in *The Cinema on the Road* (1995), a documentary produced by Samsung Nices for BBC TV's 'The Century of Cinema' series. Kim Hong-joon is the director of *La Vie en Rose* (1994), *Jungle Story* (1996) and the documentary *My Korean Cinema* (2002). He has also served as a KOFIC commissioner, dean of the School of Film, TV and Multimedia at the Korea National University of Arts, and as a film festival director. In late 2004 he was sacked as director of the Puchon International Fantastic Film Festival by the city's conservative new mayor Hong Gun-pyo, causing outrage in the film community.

² Darcy Paquet, *New Korean Cinema*, p. 36.

- ³ Doobo Shim, "South Korean Media Industry in the 1990s and the Economic Crisis," *Prometheus*, 20, no. 4 (2002): 341.
- ⁴ Kyung Hyun Kim, *Remasculinization*, p. 270.
- ⁵ On state-business collusion in Korea see Mark L. Clifford, *Troubled Tiger: Businessmen, Bureaucrats, and Generals in South Korea* (London and Armonk, New York: M.E. Sharpe, 1994).
- ⁶ Seung Hyun Park, *Cinema Journal*: 124.
- ⁷ Oh Ingyu, *Mafigoso, Big Business and the Financial Crisis: The state-business relations in South Korea and Japan* (Aldershot and Brookfield: Ashgate, 1999), p. 111; Doobo Shim, *Prometheus*: 343.
- ⁸ Don Groves, "Hyundai's baby HBC takes first steps to adulthood," *Variety* (November 17, 1997): 61.
- ⁹ Jon Lewis, "Money Matters: Hollywood in the Corporate Era," in Lewis, ed., *The New American Cinema* (Durham & London: Duke University Press, 1998), p. 97.
- ¹⁰ Doobo Shim, *Prometheus*: 342.
- ¹¹ Don Groves, "Daewoo to export Korean culture overseas," *Variety* (November 17, 1997): 61.
- ¹² David Bordwell, Janet Staiger and Kristin Thompson, *The Classical Hollywood Cinema: Film Style & Mode of Production to 1960* (New York: Columbia UP, 1985), pp. 330-337.
- ¹³ Quoted in Doobo Shim, *Prometheus*: 342.
- ¹⁴ Anonymous, "The Transition in Korean Film Production Capital," *Korean Film Observatory*, no. 5 (Summer 2002): 13.

- ¹⁵ Frank Segers, "South Korea," in Peter Cowie, ed, *Variety International Film Guide, 1997* (London: Andre Deutsch, 1996), p. 212.
- ¹⁶ Shim Sang-min, "Success factors of the booming domestic film industry and implications for corporate management," *Korean Economic Trends* no. 199 (October 13, 2001): 15.
- ¹⁷ Anonymous, "The Transition in Korean Film Production Capital," *Korean Film Observatory*: 14.
- ¹⁸ KOFIC statistics.
- ¹⁹ Source: "Number of U.S. Movie Screens," National Association of Theatre Owners <<http://www.natoonline.org/statisticsscreens.htm>> (accessed April 18, 2006).
- ²⁰ Source: "Motion Picture Exhibition, Australia, 1999-2000," Australian Bureau of Statistics <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyTopic/C9DB5140DD3F4CDECA2568A90013938D?OpenDocument>> (accessed April 18, 2006).
- ²¹ Source: "Total U.S. Admissions," National Association of Theatre Owners <<http://www.natoonline.org/statisticsadmissions.htm>> (accessed April 18, 2006); "Cinema Admissions in Australia from 1975 to Present," Australian Film Corporation <<http://www.afc.gov.au/GTP/wchist1975.html>> (accessed April 18, 2006).
- ²² Don Groves, "S. Korea snubs Hollywood's woos," *Variety* (September 22, 1997): 11.
- ²³ Janet Wasko, *Hollywood in the Information Age: Beyond the Silver Screen* (Cambridge: Polity Press, 1994), p. 251.

²⁴ Early *chaebol* involvement in video distribution is covered in Anonymous, "The Transition in Korean Film Production Capital," *Korean Film Observatory*: 13; Mark Russell and George Wehrfritz, *Newsweek International*: 38.

²⁵ Don Groves, "Hyundai's baby HBC," *Variety*: 61.

²⁶ The original theatrical box office figure (192.5 thousand million won) has been adjusted against the US dollar, which was equivalent to 777.1 won in 1995. The figure for video sales is from Christopher Alford, "Troubled homevid biz gets rev sharing," *Variety* (April 30, 2001): 78.

²⁷ Chik-Mann Koh, "Korea's profile raised by SEG," *Variety* (May 12, 1997): 51.

²⁸ Christopher Alford, "Robots, rev-sharing eyed for S. Korea vids," *Variety* (August 30, 1999): 23; Alford, "Tracking system aims to cut cheats out of Korean homevid," *Variety* (May 29, 2000): 66.

²⁹ Mark Russell and George Wehrfritz, *Newsweek International*: 38.

³⁰ Christopher Alford, "Robots," *Variety*: 23

³¹ J. C. Herz, "The Bandwidth Capital of the World," *Wired* 10, no. 8 (August 2002) <http://www.wired.com/wired/archive/10.08/korea_pr.html> (accessed July 28, 2006).

³² "Internet Game Fever Sweeps Korean Youth," *Digital Chosunilbo* (February 8, 1999) <<http://english.chosun.com/w21data/html/news/199902/199902080412.html>> (accessed July 2, 2003); Kim Hee-sup, "'Starcraft' Firm VP in Korea," *Digital Chosunilbo* (August 29, 1999)

<<http://english.chosun.com/w21data/html/news/199908/199908290371.html>>

(accessed July 3, 2003).

³³ One Starcraft game cost six times the price of a contemporary movie ticket.

³⁴ Doobo Shim and Dal Yong Jin, "Transformations and Development of the Korean Broadcasting Media," paper presented at the International Association for Media and Communication Research conference (Porto Alegre: 2004)

<www.pucrs.br/famecos/iamcr/textos/jin.pdf> (accessed July 22, 2006): 11.

³⁵ State restrictions on the cable television sector are described in, Mark Clifford, "Getting wired: Seoul hopes viewers will prefer cable over satellite TV," *Far Eastern Economic Review* (July 8, 1993): 54; David Kilburn, "South Korean Cable TV stumbles," *ADWEEK Eastern Edition* (June 26, 1995)

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