

Trends in the Structure of the Korean Film Industry

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The Korean film industry has long been under the influence of society, politics, policies and regulations. Such influence has weighed down the cinema of a peripheral nation with little sense of self-awareness. Korean film history, which began with some short foreign films, has been disrupted by many tragic events such as colonization and war.

With a structural approach, the post-war Korean film industry can be divided into two main periods. From late 1950s to the early 1990s, the film industry was barely sustained by the producers of Chungmuro and regional distributors, who had divided the country up into six major regions. From the mid 1980s, filmmaking was liberalized and direct distribution from Hollywood began. With nationwide domestic distribution in the mid 1990s, an integrated investment, filmmaking, distribution, and exhibition structure was established. This was a new beginning for Korean cinema, and helped to give it an international brand name.

The Liberalization of Film Producing and Imports, and the Open Market

The post-war film market in the 1950s was virtually open and the film industry was just starting to bud by the late 1950s. However, the Motion Picture Law of 1962 made the Korean film market a closed structure, as the seventy-one film companies went through consolidation. The number of registered companies allowed to produce and import films dropped as low as six but never exceeded twenty-six. Government policies controlled filmmaking and the number of imports. Creative filmmaking was suppressed in the name of nurturing major companies. As only a few producers were allowed to make films and to import foreign films, those who could not register as producers had to borrow the names of other companies to make films and rights to import foreign films were selling for exorbitant prices. This distorted industry structure persisted for over twenty years until 1984.

The fifth and sixth revisions of the Motion Picture Law in the mid 1980s served as a turning point for the film industry, moving it towards open competition. Producing and imports were separated and liberalized, and foreign films could be distributed directly. Thanks to the fifth revision in 1986, the number of film companies increased sharply from twenty to twenty-nine in 1985, and sixty-one in 1986. Young directors took over and the new generation created a totally new mode of filmmaking. The change, however, was not the result of the government effort to nurture the Korean cinema, but of preparation work by the US to open the Korean market.

The two rounds of Korea-US talks on cinema (in 1985 and 1988) laid the foundations for Hollywood distributors to operate freely in Korea. The terms included ① permission to establish a local office for US film companies in Korea, ② the imminent lifting of the screen quota (although this was not accepted in the end) and an upper limit on prices for imported films, ③ holding talks on tariffs with the US during 1986, ④ the repeal of the system that required companies to have

government endorsement before they exported or imported films, and the repeal of the system for censoring foreign films on 1 January 1989, and ⑤ a phased abolition of restrictions on the number of prints of imported films, increasing per year from twelve in 1989 until complete annulment in 1994. Therefore, five major direct distributors including UIP (United International Pictures, 1988), 20th CenturyFox (1988), Warner Brothers (1989), Columbia Tristar (1990) and Buena Vista (1993) established their regional offices in Korea. In 1988, Adrian Lyne's *Fatal Attraction* (1987) was screened in eight theaters against strong resistance from the Korean cinema world. The big success of Jerry Zucker's *Ghost* (distributed by UIP) marked the established presence of US direct distributors in 1990.

The Korean share of the film box-office had reached 30 per cent in the 1980s, but it plummeted to 15.9 per cent in 1993. The number of films made per year also plunged from between one hundred and one hundred and twenty in the late 1980s to sixty-three in 1993 to forty-three in 1998. On the other hand, the number of imported films soared from twenty-five in 1984 under the imported film quota system to 264 in 1989, 347 in 1993, and 405 in 1996.

Distribution System in the Rural Areas

Even during this time of fundamental change, the structure of investment and distribution that was established in the 1960s persisted until the early 1990s. Outside Chungmuro, the country was divided into six major areas. Regional distributors purchased rights by paying producers at the screenplay writing stage. Regional distributors played the role of film investors with this pre-sale system. Why was the regional distribution system set up? First, direct distribution was not effective due to underdeveloped transportation at the time. Second, due to the small scale of the film industry, producers could not assume the whole risk of making films, and so they sought out partners to share the risk with. Third, as the regional distributors were also theater owners, they pur-

chased the right to screen before the completion of the film to ensure hit movies for their own theaters. This system means that production was funded by individual regional distributors, a system that was rational at the time. It continued for forty years until UIP started nationwide direct distribution in 1999. At first, the US distributors could not do business directly because of the high entry barriers and restrictions on the number of prints of imported films. They had to go through the so-called “Chungmuro distribution network.” Therefore, the Korean film industry changed fundamentally only after the emergence of direct distribution made funding and nationwide exhibition easier.

Large Conglomerates Enter the Film Industry and Vertical Integration Follows.

The second period of the Korean film industry started with the liberalization of production and the opening of the film market in 1995, when domestic distributors including Cinema Service, Ilshin Investment Capital, and Samsung Entertainment Group began nationwide distribution. This is the time when large conglomerates (or *chaebols*) started entering the film industry. When *Marriage Story* (Kim Eui-suk) was a big hit in 1992 and Samsung purchased the video copyright, Daewoo, Byucksan, Haitai, Hanbo, SCK, Saehan and Jinro entered the film market. In the 1990s, as the video market expanded rapidly, large home appliance makers such as Samsung, LG and Daewoo turned their eyes to the software market to increase their hardware sales. Their purchase of video rights brought funds from outside to Chungmuro. *Chaebols* invested in Korean films and expanded their influence in filmmaking, distribution, and exhibition. They laid the foundation for the vertical integration of investment, producing, distribution, and exhibition. However, the financial crisis that really hit home in 1999 and failures of big budget films led to the retreat of the *chaebols* from the film industry.

Almost simultaneously, finance capital entered the film industry and

the *chaebols* made a second entry. These forces are still playing a determining role in the market today. The *chaebols*' first entry was made by purchasing video rights and investing in filmmaking, whereas the second entry hedged investment risks by starting backwards. Based on their multiplex chains, CJ Entertainment, Tongyang and Lotte made moves away from investment in films and distribution. The first multiplex cinema, CJ's Gangbyeon-CGV opened with eleven screens in 1998, followed by Tongyang's Megabox and Lotte's Lotte Cinema. Cinema Service started as an independent filmmaking company, but then they also distributed films and opened a multiplex cinema called Primus Cinema. The multiplex cinemas and the lifting of the limits on print numbers in 1994 changed the distribution and exhibition culture dramatically. Until the 1990s, a single title would show on only twenty screens across the country. However, today the wide release pattern has been generalized and a blockbuster film is screened simultaneously in one third of all the movie theaters in the country. The total number of screens tripled from 507 in 1997 to 1648 in 2005. Currently, comfortable and convenient cinemas are attracting many moviegoers in the neighborhoods. CJ Entertainment, Orion Corporation (a spin-off company from Tongyang), and Lotte are strengthening the vertical integration system that connects investment, distribution, and exhibition. Some raise concerns that they may distort the free-booking market and make their own blocs.

Another 1998 trend was the entry of finance capital. This unusual phenomenon began with the government's support for venture investment in 1999. The film industry emerged as a promising industry with a short investment-to-yield period and relatively low risks for investment capital. The first film funded in this way was Ilshin Investment's *The Ginkgo Bed* (Kang Je-kyu, 1995). However, full-fledged investment began in 1998 when Mirae Audiovisual Venture 1 founded the first audio-visual investment fund. The fund raised capital for investment and compiled a portfolio of films in search of funding. In addi-

tion, the Small and Medium Business Administration and the Korean Film Council (KOFIC) increased their leverage by deciding which films to provide public funds for and by attracting private funds. Today, the audio-visual investment fund's role is growing as it brings in not only finance capital, but also funds from distributors and public funds. As of 2004, about 31.5 per cent of filmmaking was funded by distributors, 29.6 per cent from the investment funds and the rest from other investors including the production companies themselves.

The Outlook of the Korean Film Industry and the New Media Environment

The success of Korean films after 2000 was achieved by industrial institutions and distinguished leaders, who stood at the center of changes brought about by the abolition of censorship and the transition to free competition in the marketplace. The Korean cinema's share of the box-office has grown rapidly at an annual rate of 20 per cent for the past five years. Today, it exceeds 50 per cent of the total, and exports to overseas markets are increasing dramatically. The Korean film industry currently makes from eighty to one hundred feature films per year and the number of film companies has reached about three thousand. Film companies are increasingly entering the equity market through mergers and acquisitions or stock exchange launches together with entertainment companies or even manufacturing companies. Now they must strengthen their fundamentals by making a long-term, stable and rational structure.

The Korean film industry faces challenges it must resolve, such as the oligopoly of major investment distributors, soaring production costs and the unequal allocation of funds. It must secure a rational filmmaking system and transparency, and it must diversify the profit structure. In addition, it needs to fight piracy. Wireless carriers' entry on the back of the convergence of broadcasting and communications as well as the emergence of new media such as DMB (Digital Multimedia Broad-

casting) and IP-TV (Internet Protocol TV) all pose another threat. The Korean film industry has passed the time when it was affected only by its own internal conditions. It is in a wider network, composed of the entire entertainment industry, information and communication, the internet industry, and collaboration with manufacturing companies.