

Song, Yeongkwan

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Audiovisual Services in Korea: Market Development and Policies

Yeongkwan Song

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Yeongkwan Song is a research fellow at the Department of Industry and Competition Policy, Korea Development Institute (KDI) in Seoul.

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Please contact the author(s) for information about this paper.

Email: ysong@kdi.re.kr

Asian Development Bank Institute
Kasumigaseki Building 8F
3-2-5 Kasumigaseki, Chiyoda-ku
Tokyo 100-6008, Japan

Tel: +81-3-3593-5500
Fax: +81-3-3593-5571
URL: www.adbi.org
E-mail: info@adbi.org

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Abstract

This paper reviews economic development and the regulatory environment of audiovisual services in the Republic of Korea (hereafter, Korea). The paper specifically examines motion pictures and broadcasting, and discusses what drives or hinders the sector's trade potential. Korean motion pictures have benefited greatly from the elimination of government censorship, substantial investment capital, especially from the 1990s, and frequent invitations from prestigious international movie festivals. The trade potential of Korean audiovisual services depends on whether Korean audiovisual services providers create high quality content that can be shared locally and/or universally. As recently proven in Korea's film industry, Korean content does have trade potential. The most important prerequisite for high quality content is the generation of creative ideas, which would be hindered by strong government censorship and controls. The restrictive Korean broadcasting sector should learn from the success of the Korean film industry in this regard.

JEL Classification: O14, O24, O53

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1. INTRODUCTION

According to the World Trade Organization's (WTO) Services Sectorial Classification List, audiovisual services include motion picture and video tape production and distribution services, motion picture projection services, radio and television services, radio and television transmission services, and sound recording (WTO 1991). The development of this sector crucially relies on the quality of content that audiovisual services provide to diverse audiences. Technological advances, among other things, have affected and transformed the nature of this sector: they make it possible for content to be distributed on a variety of platforms and devices by diverse operators; and give greater control to consumers over what they want to watch or listen to—when, where, and how. The widespread use of telecommunication technology allows a greater amount of content to be transmitted within and across borders quickly and cheaply.

Under the General Agreement on Trade in Services (GATS), a relatively small number of WTO Members have undertaken specific commitments in the audiovisual sector (WTO 2010). In the WTO, the audiovisual sector does not benefit from specific commitments from many WTO members, and has attracted many “most-favoured-nation” (MFN) exemptions. This reflects the sensitivity of this sector, which has both economic components as well as social and cultural ones. Due to its importance in the areas of social cohesion and cultural identity, as well as cultural diversity and economic development, audiovisual services are typically subject to a wide array of government regulations, which may relate to the protection of intellectual property, competition, protection against illicit or offensive content, advertising, language requirements as regards subtitling and dubbing or, more traditionally, management of the broadcast radiowaves spectrum (WTO 2010). The WTO acknowledges the complex nature of this sector and treats cultural goods and services differently from other traded goods and services because of the intrinsic differences of such goods and services.

Government policies play a significant role in the sector. Governments may take measures to attain certain cultural objectives, including the protection and promotion of domestic cultural content or diversity and pluralism, and/or intellectual property rights. Nonetheless, various data indicate a rapid expansion of international trade in audiovisual services (WTO 2010). Although WTO (2010) estimates that, when measured on a balance-of-payments basis, trade in audiovisual and related services represents approximately 1% of total commercial services trade; it acknowledges that the relative importance varies from country to country.

The purpose of this paper is to review the economic development and regulatory environment of Korean audiovisual services, specifically motion pictures and broadcasting, and to discuss what drives or hinders the trade potential of Korean audiovisual services. This paper is structured as follows: Section 2 reviews Korean market development in the area of motion pictures and broadcasting, including recent economic trends and trade in each sector. Section 3 discusses current regulations in these sectors as well as GATS and free trade area (FTA) commitments. Section 4 concludes by discussing what drives or hinders the trade potential of Korean audiovisual services.

2. MARKET DEVELOPMENT

2.1 Motion Pictures

The Republic of Korea (hereafter, Korea) ranked eighth in the world in terms of the number of motion pictures produced in 2008 (WTO 2010). As for the values of exports and imports in

2009, WTO (2011) shows that the country ranked eighth in both exports (worth US\$198 million) and imports (US\$321 million). Korean films have garnered serious international recognition recently, but the development of Korea's film industry traversed a very long bumpy road. For instance, it was hampered by Japanese colonization, national division, civil war, authoritative military governments, strict censorship, high restrictions, and distorting film regulations. The industry appears to have come into being sometime during the early 1900s, but it was only in the 1990s that Korean cinema finally enjoyed a supportive government, a stable economic environment, and a sensible film policy.

2.1.1 Brief History¹

The first time a movie was screened in Korea is thought to be in the late 1890s.² Korea's first movie theater, Dongdaemun Motion Picture Studio in Seoul, was opened in 1903 and began with the screening of short films (James et al. 2002). From 1909 to 1920, a series of theaters were built in regional cities, such as in Seoul, Busan, and Pyongyang. The first Korean-made silent features were produced in 1923, but most of the films that Korean theaters showed were imported from Europe and the United States (US). Over the following years, several Korean film companies were created and gained increasing popularity. Despite this, however, Japanese censorship and oppression limited the growth of Korean movies. The colonial government censorship board insisted that all foreign and domestic feature films be submitted for approval before being screened, and police officers were present at theaters for screenings.

After the end of the Japanese colonization in 1945, the Korean War broke out on 25 June 1950. Even though the war ended officially on 27 July 1953, it destroyed much of the country's film infrastructure. However, the 1950s and early 1960s saw the emergence of some of Korea's most talented directors and Korean films enjoyed a Golden Age during this period. With the Armistice of 1953, South Korean President Syngman Rhee exempted the country's film industry from taxation in an attempt to rejuvenate it. The number of domestic productions increased from eight in 1954 to 108 in 1959 and the domestic film industry enjoyed an unprecedented surge in box office receipts as the public returned to theaters.

This golden age receded as the new authoritative military government substantially increased its control over all aspects of the film industry. The Motion Picture Law of 1963 limited the number of films produced and imported under a strict quota system, and cut down the number of domestic film-production companies from 71 to 16 within a year. Government censorship became very strict, focusing mainly on any hint of pro-communist messages or obscenity. Such restrictive policies would ultimately have a severe effect on the industry's creativity. Increased levels of government control and censorship over the film industry continued in the seventies. In addition, the sudden growth of television ownership in the late 1960s created extra competition for Korean filmmakers: movie-theater attendance dropped by about a third in the 1970s. The Korean film industry entered a long period of declining admissions, producing low quality movies with limited subjects, ideas, and budgets.³

¹ This summary is mainly based on Paquet (2010).

² According to the 19 October 1897 issue of *The Times*, "Motion pictures have finally been introduced into Joseon, a country located in the Far East. In October 1897, motion pictures were screened for the public in Jingogae, Bukchon, in a shabby barrack that was borrowed from a Chinese owner for three days. The works screened included short films and documentary films produced by France's Pathe Pictures". See Wikipedia: http://en.wikipedia.org/wiki/Cinema_of_Korea#cite_note-6.

³ The military government established the Korean Motion Picture Promotion Corporation (the precursor to the Korean Film Council) in 1973 and the Korean Film Archive in the following year in an effort to revive the industry. But the

The 1980s saw a major transformation of the Korean film industry with several important developments. Though theater attendance remained low throughout the 1980s, the film industry won increasing recognition from the international film community and a gradual easing of government control and political censorship. South Korean films reached an international audience for the first time when the Korean movie *Mandala*, directed by Kwon-Taek Im, won the Grand Prix at the Hawaii Film Festival in 1981.⁴ A revision to the Motion Picture Law of 1984 also permitted, under certain circumstances, independent production, which had formerly been illegal. In the late 1980s, the newly-elected president Tae-woo Roh began the gradual elimination of government censorship of political expression in films. The end result of these changes was that by the late 1980s a new generation of young movie producers had entered the film industry, and their new approaches to filmmaking enabled the production of more diverse Korean movies.

All these transformations had a positive effect on the Korean film industry. However, there was also a gradual loss of audience from the late 1980s. In 1988, a change in policy lifted import restrictions on foreign films and also allowed Hollywood companies to set up branch offices in Korea. This policy change led to the Screen Quota System, which obliged theaters to screen Korean features for at least 146 days a year. At that time, it was the one and only protection measure for the indigenous film industry against foreign competition. Over the next few years, domestic films would gradually lose their market share, reaching a low point in 1993 when Korean cinema made up only 16% of overall attendance figures.

Korean cinema entered a new era in the 1990s when Korea's major conglomerates entered the film industry. In 1992, Samsung, one of South Korea's five major conglomerates, so-called *chaebols*, became the first *chaebol* to finance a movie production. The conglomerates helped to transform the structure of the business by introducing a vertically-integrated system, in which the financing, production, exhibition, distribution, and video release of films were all controlled by a single company. Although many *chaebols*, including Samsung, dropped out of the industry after the 1997 financial crisis, several major conglomerates remain as the industry's most powerful players to the present day. After the 1990s, Korean movies improved drastically in terms of quality and diversity of theme, and began to produce a string of box office hits.

2.1.2 Recent Market Trends

The Motion Picture Association of America (MPAA 2011) reports that global box office receipts for films reached US\$31.8 billion in 2010, up 8% from the 2009 total. This increase was boosted by box office increases in markets outside the US and Canada that reached US\$21.2 billion, which made up 67% of the worldwide total. In terms of US dollars, international box office receipts outside the US and Canada was up significantly in the five years following 2006 with an increase of 13% in 2010. Box office receipts in the Asia Pacific region increased annually by 21% in 2010. Although all major markets in Asia Pacific grew in 2010 in US dollar terms, the largest increase in overall box office value for all films occurred in the People's Republic of China (PRC), which accounted for more than 40% of Asia Pacific box office growth.

Even though the Korean movie industry was not able to dodge the negative impacts of the recent global financial crisis, it underwent a renaissance of sorts in the 2000s. The number of first-run releases increased continuously until 2007, when it reached 392. The number fell to

Korean Motion Picture Promotion Corporation was primarily created to control the film industry and to support censorship and the government ideals, so Korean cinema did not reverse its commercial slide until the mid-1990s.

⁴ After this award, director Im became the first Korean director in years to have his films shown at European film festivals. His films have won numerous awards at international film festivals. He received the Best Director award at the Cannes Film Festival in 2002 and an honorary Golden Bear award at the Berlin Film Festival in 2005.

361 in 2009, but surged to 426 in 2010. The year 2010 was the year that saw the most film releases during the past decade. After falling for the first time in many years in 2008, Korean production levels reached a new record high of 152 films in 2010. Domestic film accounted for 32% of total films released in 2010.

Table 1: Number of Films Produced, Imported, and Released by Year

		2003	2004	2005	2006	2007	2008	2009	2010
Korean films	Films produced	80	82	87	110	124	113	158	152
	Films released	65	74	83	108	112	108	118	140
Foreign films	Films imported	271	285	253	289	404	360	311	381
	Films released	175	194	215	237	280	272	243	286
Total No. of films released		240	268	298	345	392	380	361	426

Source: Korean Film Yearbook 2011. Korean Film Council (KOFIC).

Box office receipts in Korea reached around one billion US dollars in 2010. Receipts were over one billion dollars in 2007, but slumped downwards in 2008 and 2009. In terms of admissions, however, 2010 marked a downturn for the Korean film market. After bouncing back in 2009, with total admissions rising to 157 million viewers, the market experienced a setback in 2010, with total admissions dropping to around 147 million: a 6.6% decrease compared with the previous year. The discrepancy between increasing box office receipts and decreasing admissions in 2010 resulted from an increase in the average cinema ticket price, which was around US\$6 in 2009, but \$7 in 2010. This increase was due to the huge success of James Cameron's three-dimensional (3D) film *Avatar*. The weekend ticket price for 3D movies is around 14 dollars and the market share of 3D movies in terms of revenue increased from 2.2% in 2009 to 16.5% in 2010.

Table 2: Korean Box Office Receipts and Admissions

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Box Office	US\$ (Million)	405.7	505.9	601.7	743.0	877.0	969.2	1,067.5	887.7	857.2	994.9
	% Change vs. Previous Year	32.6	24.7	18.9	23.5	18.0	10.5	10.1	-16.8	-3.4	16.1
Admissions	Numbers (Million)	89.4	105.1	119.5	135.2	145.5	153.4	158.8	150.8	157.0	146.8
	% Change vs. Prior Year	38.3	17.7	13.6	13.1	7.7	5.4	3.5	-5.0	4.1	-6.5

Source: Korean Film Yearbook 2011. KOFIC.

2.1.3 Technological Developments

In 2010, 3D technology had a huge impact on theaters in Korea. Early in the year, the 3D film *Avatar* became the film with the highest number of admissions sold in Korea's film history. It attracted a viewing audience of more than 13.4 million in 2009 and 2010. With this film, Korean audiences enthusiastically embraced the advent of 3D technology despite the fact that a typical weekend ticket price of a 3D title is almost double the price of a regular admission. The unprecedented success of *Avatar* led to a wave of further 3D films in 2010. The number of 3D films released in 2010 totaled 25, which represented more than a 350% annual increase. Korean film producers are trying to exploit this technological advance. The first two Korean 3D films were released in 2010, but failed to attract significant audience levels. Nonetheless, a

Korean 3D film, *Sector 7*, attracted more than 2 million viewers in 2011 and several 3D Korean films are expected to be released in 2012.

Table 3: 3D Films Released in Korea

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Films released	280	274	240	268	298	345	392	380	361	426
- 3D films	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7	25

Source: Korean Film Yearbook 2011. KOFIC.

With the advent of digital films, theaters in Korea have been investing in more tech-savvy facilities. The total number of digital screens doubled in the 2000s, while the number of analog screens decreased during the same period. Meanwhile, it is easy to notice the rapid increase of digital screens. Until 2003 no data was available on the number of digital screens in Korea. In 2004 official data show that there were four digital screens. In 2010, the total number of digital screens was 627 and there was a huge increase in the number of digital 3D screens.

Table 4: Cinema Screens by Format

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Number	818	977	1,132	1,451	1,648	1,880	1,975	2,004	1,996	2,003
- Analog	N/A	N/A	N/A	1,447	1,602	1,785	1,814	1,836	1,430	870
- Digital Non 3D	N/A	N/A	N/A	4	46	95	161	123	437	627
- Digital 3D	N/A	N/A	N/A	0	0	0	0	45	129	506

Source: Korean Film Yearbook 2011. KOFIC.

2.1.4 Exports and imports

Exports of Korean motion pictures experienced turbulent fluctuations in the 2000s. They reached a peak in 2005 with exports valued at US\$76 million, but, since then, dropped suddenly and only amounted to US\$13.5 million in 2010. The main cause of this fall in 2006 was a steep decrease in Korean movie exports to Japan. In 2005, Korean cinema exports to Japan amounted to US\$60.3 million, which was 80% of total exports. However, this only translates to US\$10.4 million, which was 43% of total exports in 2006. The 83% decline in Korean cinema exports to Japan largely accounted for the huge drop in total Korean movie exports in 2006. The total exports declined slightly in 2010, but there was a difference between regions. The proportion of the total exports that went to Asia decreased by 72.4% in 2009 to 49.4% in 2010. Meanwhile, exports to Europe rose from US\$2.3 million in 2009 to US\$4.5 million in 2010.

Table 5: Exports of Korean Motion Pictures

(Unit: US\$)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Exports	11,249,573	14,952,089	30,979,000	58,284,600	75,994,580	24,514,728	24,396,215	21,036,540	14,122,143	13,582,850
- Asia	8,271,865	10,499,979	19,024,000	45,327,500	66,143,686	17,029,759	9,011,114	12,972,878	10,228,838	6,712,061
- North America	1,234,600	695,500	4,486,000	2,900,000	2,014,500	1,959,200	8,775,791	3,134,805	891,555	1,421,297
- Europe	1,566,412	2,365,500	5,724,000	8,245,250	7,315,970	4,902,054	4,696,326	4,139,480	2,372,870	4,518,034

Source: Korean Film Yearbook 2011. KOFIC.

Until 1999, foreign films dominated Korean theater and the market share of Korean films in terms of admissions was less than 30% in most part of the 1990s. However, it surged to more than 50% in 2001 and has remained over 40% since then. The dominance of Korean film was mostly noticeable in 2006, when 64% of theater audiences enjoyed films made by Korean producers. Since then, the market share of Korean films has reduced and has fluctuated between 42% and 50%. It was 46.2% in 2010.

Table 6: Korean and Foreign Film Box Office Admissions by Year

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Korean films	Total admissions (Unit 10,000)	2,172	2,271	4,481	5,082	6,391	8,019	8,544	9,791	7,939	6,354	7,641	6,940
	Market share	39.70%	35.10%	50.10%	48.30%	53.49%	59.33%	58.71%	63.80%	50.00%	42.13%	48.68%	46.52%
Foreign films	Total admissions (Unit 10,000)	3,300	4,191	4,455	5,431	5,556	5,498	6,008	5,549	7,938	8,729	8,055	7,978
	Market share	60.30%	64.90%	49.90%	51.70%	46.51%	40.67%	41.29%	36.20%	50.00%	57.87%	51.32%	53.48%
Total admissions		5,472	6,462	8,936	10,513	11,947	13,517	14,552	15,341	15,877	15,083	15,696	14,918

Source: KOFIC 2011.

The market share of imported movies was over 50% in 2010, but slightly less than 50% in 2011. Hollywood movies still dominate Korean movie imports. Cinema made in the US accounted for more than 45% of the Korean movie market in which the market share of foreign cinema was around 50% recently. Other than Hollywood movies, foreign movies have not attracted much attention from Korean audiences. They accounted for less than 5% of the Korean film market.

Table 7: January–November 2011: Market Share by Country

	Number of Titles	Market Share By Admissions	Market Share by Box Office Receipts
Total Imports (First Run)	262	47.4%	49.9%
- US	140	42.9%	45.5%
- PRC	15	0.4%	0.4%
- Europe	55	1.9%	1.9%
- Japan	45	1.5%	1.3%
- Others	23	0.8%	0.7%

Source: KOFIC 2011.

2.2 Broadcasting

The broadcasting industry in Korea consists of radio and television stations, cable TV stations, satellite TV, digital multimedia broadcasting (DMB), internet protocol TV (IPTV) and program providers that create content or have acquired the right to broadcast taped television and radio programs.⁵

2.2.1 Brief History⁶

Korean television broadcasting began with the channel HLKZ-TV in 1956 (Cho et al. 2011). However, the first full-scale television station, KBS-TV, was established and began operating on 31 December 1961 (Choi 2010). The second commercial television station, MBC-TV, followed the debut of the first commercial television, TBC-TV, in 1969. After 1969, the television industry was characterized by furious competition between the three networks.

The 1970s were dominated by government intervention in the country's media system. In 1972, the Park Chung-hee administration imposed censorship upon media through a martial law decree. The government revised the Broadcasting Law, after which the government expanded its control on media content by requiring all television and radio stations to review programming before and after transmission.

The 1980s were the golden years for Korea's television industry. Growth was phenomenal in every dimension, including the number of programming hours per week, television stations, and television sets. The year 1981 also saw the introduction of color television transmissions. After decades of state control and heavy censorship, the repressive Basic Press Law was repealed in 1987, and, since 1990, the television market has expanded significantly. With the Broadcasting Law of 1987, the Korean Broadcasting Committee was established to oversee all broadcasting in the country. The most important feature of this law was that it guaranteed freedom of broadcasting. However, it imposed a strict quota system in which television stations allocate at least 10% of their broadcasting hours to news programming, 40% to cultural/educational programming, and 20% to entertainment programming.

⁵ Sometimes television transmission services are defined to include only terrestrial analog broadcasting, while cable and satellite TV services are considered to belong to the telecommunications sector. This paper, however, follows the definition of broadcasting in the Broadcasting Act of Korea and defines all of these services as broadcasting.

⁶ This summary is mainly based on Choi (2010).

In 1990 the government ended a 27-year-long freeze on new commercial licenses and granted a license to SBS-TV. This breakthrough paved the way for competition between the public and private networks. Another technological breakthrough took place at the beginning of the 1990s with the introduction of cable television. Also in 1990, the government initiated an experimental multi-channel and multi-purpose cable television service. In addition, Korea launched its first broadcasting/communication satellite in 1995 and its first satellite TV in 2002.

New technology continued to bring new broadcasting services in Korea. In 2005, Korea became the first country in the world to start DMB services. IPTV services took off in 2010. The government set 31 December 2012 as the deadline for the switchover to digital in Korea. From 2013, Korea will convert from analog broadcasting to digital broadcasting.

2.2.2 Recent Market Trends

The broadcasting industry in Korea experienced substantial growth in the 2000s. Total revenue grew from less than US\$5 billion in 2001 to more than US\$15 billion in 2010. Much of the revenue increase came from program providers and cable TV operators. The revenue of program providers increased from around US\$2 billion in 2001 to more than US\$8.2 billion in 2010, while that of cable TV jumped from US\$568 million to US\$2.3 billion over the same period. More than half of the PP revenue came from home shopping channels. Even though the revenue of terrestrial broadcasting, including TV, radio, and DMB, increased by 10% in 2010 compared to the previous year, this sector did not experience a big boost over the 2000s. The relative revenue share of satellite TV and IPTV is still small, but their growth rates were significant in 2010.

Table 8: Revenue of Korean Broadcasting

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Revenue	US Dollars (Million)	4,775	7,615	5,988	6,796	8,432	10,177	11,338	14,496	13,817	15,214
	% Change vs. Previous Year	N/A	59.5	-21.4	13.5	24.1	20.7	11.4	27.9	-4.7	10.1
Terrestrial Broadcasting (TV, Radio, DMB)	US Dollars (Million)	2,302	2,908	2,977	3,099	3,459	3,880	4,187	3,476	2,852	3,535
	% Change vs. Previous Year	N/A	26.3	2.4	4.1	11.6	12.2	7.9	-17.0	-17.9	23.9
Cable TV (SO*, RO**)	US Dollars (Million)	568	717	954	1,211	1,560	1,950	2,317	2,192	1,991	2,293
	% Change vs. Previous Year	N/A	26.2	33.0	27.0	28.8	25.0	18.8	-5.4	-9.2	15.2
Satellite TV	US Dollars (Million)	N/A	51	126	223	360	505	546	459	416	758
	% Change vs. Previous Year	N/A	N/A	147.1	77.6	61.5	40.3	8.0	-15.9	-9.3	82.1
Program Providers	US Dollars (Million)	1,905	3,939	1,932	2,263	3,053	3,841	4,288	8,370	8,385	8,278
	% Change vs. Previous Year	N/A	106.8	-51.0	17.2	34.9	25.8	11.6	95.2	0.2	-1.3
IPTV	US Dollars (Million)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	173	350
	% Change vs. Prior Year	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	102.5

* System Operator

** Retransmission Operator

Source: Korea Communications Commission. 2011.

Korea embraced new technology and became the first country in the world to start Satellite Digital Multimedia Broadcasting (S-DMB) and Terrestrial Digital Multimedia Broadcasting (T-DMB) services on 1 May and 1 December 2005, respectively. IPTV was also starting to take off by mid-2010. As of 31 March 2011, there were 1.83 million and 3.98 million subscribers for S-DMB and IPTV, respectively (KCC 2011).⁷ Comparing these subscription figures with those at the end of 2010, S-DMB subscribers declined by 7.6% while IPTV subscribers increased by 9% over three months.

⁷ Korea Communications Commission does not provide data for T-DMB subscribers. T-DMB services providers have shown a sizable deficit since their inception.

The broadcasting industry employed 29,878 workers in 2010. Total employment in this sector had decreased continuously since 2003, but increased by 2.6% in 2008. It decreased slightly in 2010. Terrestrial broadcasting has been the largest employer with a 45% share of total employment, and PP has been the second largest employer. The employment share of cable TV continued to decline over the 2000s.

Table 9: Employment in Korean Broadcasting

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Employment	Number	29,107	N/A	31,934	31,645	30,530	29,308	28,913	29,669	29,966	29,878
	% Change vs. Previous Year	N/A	N/A	N/A	-0.9	-3.5	-4.0	-1.3	2.6	1.0	-0.3
Terrestrial Broadcasting (TV, Radio, DMB)	Number	13,408	N/A	14,029	14,135	14,024	13,785	13,897	14,013	13,757	13,508
	% Change vs. Previous Year	N/A	N/A	N/A	0.8	-0.8	-1.7	0.8	0.8	-1.8	-1.8
Cable TV (SO, RO)	Number	7,836	N/A	7,924	7,536	7,537	5,885	5,401	5,695	5,642	5,160
	% Change vs. Previous Year	N/A	N/A	N/A	-4.9	0.0	-21.9	-8.2	5.4	-0.9	-8.5
Satellite TV	Number	277	N/A	296	296	436	459	513	451	443	406
	% Change vs. Previous Year	N/A	N/A	N/A	0.0	47.3	5.3	11.8	-12.1	-1.8	-8.4
Program Providers	Number	7,586	N/A	9,685	9,678	8,533	9,179	9,102	9,510	9,718	10,334
	% Change vs. Previous Year	N/A	N/A	N/A	-0.1	-11.8	7.6	-0.8	4.5	2.2	6.3
IPTV	Number	0	N/A	0	0	0	0	0	0	406	470
	% Change vs. Previous Year	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15.8

Source: KCC. 2011.

2.2.3 Exports and Imports

Total exports of Korean broadcasting programs enjoyed a surge in 2010, amounting to US\$215 million, 26.3% more than 2009. Exports of terrestrial broadcasting programs increased by 20% and reached US\$122 million, while those of program providers reported US\$5.3 million, which was an 85.1% increase compared to the previous year. While Japan was the most important export market for Korean programs, the export market shares of the PRC; Taipei, China; and South-east Asian countries increased significantly in 2010. Program exports to the US and European countries remained minimal in this year.

Table 10: Exports of Korean Terrestrial Broadcasting Programs

(Unit: US\$1,000)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Exports (Share)		10,906 (100.0)	18,020 (100.0)	27,267 (100.0)	55,516 (100.0)	102,626 (100.0)	95,379 (100.0)	89,336 (100.0)	91,131 (100.0)	101,379 (100.0)	121,769 (100.0)
Asia	Japan (Share)	1,157 (10.6)	2,101 (11.7)	5,556 (20.4)	34,937 (62.9)	63,543 (61.9)	45,113 (47.3)	51,259 (57.4)	64,175 (70.4)	64,309 (63.4)	46,754 (38.4)
	PRC (Share)	2,700 (24.8)	2,398 (13.3)	4,755 (17.4)	5,495 (9.9)	9,238 (9.0)	7,914 (8.3)	5,252 (5.9)	4,491 (4.9)	6,284 (6.2)	15,517 (12.7)
	Hong Kong, China (Share)	1,117 (10.2)	1,909 (10.6)	939 (3.4)	991 (1.8)	3,232 (3.1)	4,057 (4.3)	2,654 (3.0)	3,287 (3.6)	4,019 (4.0)	4,636 (3.8)
	Taipei, China (Share)	2,232 (20.5)	6,452 (35.8)	9,748 (35.7)	8,490 (15.3)	11,872 (11.6)	20,423 (21.4)	17,113 (19.2)	6,996 (7.7)	11,565 (11.4)	28,240 (23.2)
	Viet Nam (Share)	318 (2.9)	N/A	468 (1.7)	754 (1.4)	962 (0.9)	831 (0.9)	1,052 (1.2)	838 (0.9)	1,957 (1.9)	4,565 (3.7)
	Malaysia (Share)	N/A	N/A	1,019 (3.7)	712 (1.3)	1,336 (1.3)	2,541 (2.7)	1,456 (1.6)	1,150 (1.3)	809 (0.8)	5,629 (4.6)
	Thailand (Share)	N/A	N/A	597 (2.2)	540 (1.0)	2,327 (2.3)	3,860 (4.0)	2,465 (2.8)	2,676 (2.9)	3,325 (3.3)	2,571 (2.1)
	Philippines (Share)	N/A	N/A	779 (2.9)	784 (1.4)	3,996 (3.9)	3,298 (3.5)	1,662 (1.9)	1,695 (1.9)	1,757 (1.7)	2,633 (2.2)
	Myanmar (Share)	N/A	N/A	N/A	89 (0.2)	N/A	387 (0.4)	349 (0.4)	741 (0.8)	715 (0.7)	2,426 (2.0)
	Others (Share)	1,061 (9.7)	N/A	3,225 (11.8)	1,255 (2.3)	2,628 (2.6)	3,583 (3.8)	3,355 (3.8)	4,025 (4.4)	4,108 (4.1)	4,282 (3.5)
America	US (Share)	184 (1.7)	1,051 (5.8)	108 (0.4)	359 (0.6)	1,751 (1.7)	477 (0.5)	10 (0.0)	448* (0.5)	782 (0.8)	2,024 (1.7)
	Others (Share)	0 (0.0)	N/A	0 (0.0)	0 (0.0)	0 (0.0)	9 (0.0)	567 (0.6)	20 (0.0)	33 (0.0)	85 (0.1)
Europe	France (Share)	0 (0.0)	85 (0.5)	19 (0.1)	0 (0.0)	0 (0.0)	20 (0.0)	18 (0.0)	3 (0.0)	34 (0.0)	38 (0.0)
	UK (Share)	3 (0.0)	9 (0.0)	0 (0.0)	8 (0.0)	0 (0.0)	117 (0.1)	2 (0.0)	29 (0.0)	5 (0.0)	0 (0.0)
	Germany (Share)	988 (9.1)	0 (0.0)	0 (0.0)	16 (0.0)	8 (0.0)	10 (0.0)	16 (0.0)	2 (0.0)	132 (0.1)	0 (0.0)
	Others (Share)	141 (1.3)	N/A	55 (0.2)	302 (0.5)	176 (0.2)	113 (0.1)	317 (0.4)	487 (0.5)	989 (1.0)	2,271 (1.9)
Others (Share)		1,006 (9.2)	N/A	0 (0.0)	784 (1.4)	1,557 (1.5)	2,627 (2.8)	1,791 (2.0)	68 (0.1)	556 (0.5)	98 (0.1)

* US and Canada in 2008; UK = United Kingdom.

Source: KCC. 2011.

Total imports of foreign broadcasting programs were almost half of the total exports of Korean programs in 2010. They totaled US\$102 million and were 16% lower than in 2009. Program imports from Korean terrestrial broadcasting stations reduced dramatically from US\$17.3 million in 2001 to US\$4.4 million in 2010. This reduction was parallel to a significant increase in their exports of programs, which amounted to US\$10.9 million in 2001 rising to US\$122 million in 2010 (Table 10). Meanwhile, program providers were big importers of foreign programs: they bought US\$97.7 million worth of foreign programs but sold only US\$5.3 million worth (KCC 2011). In contrast to the export destinations, most imports have come from the US and European countries, such as the United Kingdom. Program providers bought most of their foreign programs from the US: imports from the US accounted for US\$87 million of the US\$97.7 million of total PP imports in 2010.

Table 11: Imports of Foreign Terrestrial Broadcasting Programs

(Unit: US\$ 1,000)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Imports (Share)		17,266 (100.0)	16,980 (100.0)	22,060 (100.0)	15,277 (100.0)	12,657 (100.0)	15,586 (100.0)	9,311 (100.0)	5,620 (100.0)	3,611 (100.0)	4,359 (100.0)
Asia	Japan (Share)	1,544 (8.9)	540 (3.2)	1,090 (4.9)	549 (3.6)	195 (1.5)	293 (1.9)	395 (4.2)	442 (7.9)	263 (7.3)	295 (6.8)
	PRC (Share)	0 (0.0)	718 (4.2)	821 (3.7)	70 (0.5)	287 (2.3)	1,312 (8.4)	374 (4.0)	12 (0.2)	174 (4.8)	52 (1.2)
	Singapore (Share)	0 (0.0)	N/A	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	6 (0.1)	0 (0.0)	93 (2.1)
	Others (Share)	491 (2.8)	N/A	506 (2.3)	139 (0.9)	397 (3.1)	624 (4.0)	160 (1.7)	0 (0.0)	0 (0.0)	2 (0.0)
America	US (Share)	12,503 (72.4)	10,565 (62.2)	16,334 (74.0)	12,281 (80.4)	8,560 (67.6)	9,035 (58.0)	5,603 (60.2)	2,145 (38.2)	1,632 (45.2)	1,426 (32.7)
	Others (Share)	55 (0.3)	N/A	469 (2.1)	92 (0.6)	266 (2.1)	254 (1.6)	65 (0.7)	92 (1.6)	9 (0.2)	88 (2.0)
Europe	France (Share)	489 (2.8)	850 (5.0)	731 (3.3)	309 (2.0)	554 (4.4)	592 (3.8)	544 (5.8)	240 (4.3)	147 (4.1)	161 (3.7)
	UK (Share)	1,579 (9.1)	2,089 (12.3)	1,327 (6.0)	987 (6.5)	1,384 (10.9)	1,502 (9.6)	1,362 (14.6)	1,802 (32.1)	842 (23.3)	1,549 (35.5)
	Germany (Share)	76 (0.4)	355 (2.1)	323 (1.5)	90 (0.6)	358 (2.8)	557 (3.6)	318 (3.4)	50 (0.9)	58 (1.6)	129 (3.0)
	Others (Share)	423 (2.4)	N/A	138 (0.6)	595 (3.9)	616 (4.9)	1,369 (8.8)	326 (3.5)	752 (13.4)	485 (13.4)	538 (12.3)
	Others (Share)	106 (0.6)	N/A	322 (1.5)	165 (1.1)	40 (0.3)	49 (0.3)	165 (1.8)	80 (1.4)	2 (0.1)	27 (0.6)

Source: KCC, 2011.

2.2.4 Inward and outward foreign direct investment

Korea has various restrictions on foreign ownership of broadcasting services providers. As a result, this sector has not attracted a large volume of foreign direct investment (FDI). As of 31 December 2010, total FDI into Korean broadcasting was around US\$412 million. Of this almost 77% was invested in system operators. Program providers have attracted only US\$34.7 million from overseas. For the origin countries of the FDI, the US was the largest investor in this sector, followed by Malta.

Table 12: Inward foreign direct investment (FDI)

(As of 31 December 2010)

Type of Broadcasting	Source Economy	Number of Recipient Companies	FDI (US\$)
System Operator	Malta	1	122,983,748
	Netherlands	1	53,439,937
	US	2	139,433,654
	Japan	1	3,050
	Canada	1	13,707
	Germany	1	2,331
Satellite TV	Netherlands	1	60,999,521
Program Provider	Japan	4	4,755,187
	US	5	20,931,975
	Singapore	2	7,209,045
	Hong Kong, China	2	30,783
	Others	5	1,769,630

Source: KCC. 2011.

3. REGULATORY REGIME⁸

Audiovisual services in the WTO Services Sectoral Classification List, on which the services market opening negotiations in the Uruguay Round were based, consist of:

- 1) motion picture and video tape production and distribution services (CPC 9611);
- 2) motion picture projection services (CPC 9612);
- 3) radio and television services (CPC 9613);
- 4) radio and television transmission services (CPC 7524);
- 5) sound recording; and
- 6) others.

Among them, Korea made commitments on 1) motion picture, video production, distribution services excluding those for cable TV broadcasting; and 2) record production and distribution services of sound recording under the General Agreement on Trade in Services (GATS). The

⁸ This section borrows some language from the Korea-US Free Trade Agreement (FTA).

sectors that Korea made commitments to exclude broadcasting sectors. By making commitments to these sectors, Korea promised to keep these sectors open to foreign investment. Therefore, there is no restriction such as capping foreign ownership in these services. In sum, Korea has not made any commitments to GATS on broadcasting, nor maintained any restrictions on trade in motion picture services, except for the screen quota and the movement of service providers across the border.

Currently, the motion picture industry in Korea is fully open to foreign investment and films except for the screen quota system. Foreigners could set up a production studio and/or a distribution company in Korea without discrimination. The screen quota system is the only rule that discriminates against foreign films and protects domestic films. However, Korea has maintained a high level of government control over broadcasting.

Korea made significant commitments to the audiovisual sector in the Korea-US Free Trade Agreement (FTA). The affected areas include screen quotas, broadcasting quotas, and foreign ownerships of broadcasting. The Korea-US FTA increases US quota applicable to single-country sources of foreign content broadcast in Korea. More than that, no later than three years after 15 March 2012, which was when the Korea-US FTA entered into force, Korea will permit 100% foreign ownership of program providers that are not engaged in multi-genre programming, news reporting, or home shopping. The Korea-EU FTA does not have any provisions on audiovisual services.

3.1 Screen Quotas

The screen quota system has been enforced in Korea since 1967 under the Act on Promotion of Motion Pictures and Video Products. Before entering FTA negotiations with the US, Korea significantly reduced its screen quota in half to 73 days per year on each cinema screen. Hence, cinema operators must show Korean motion pictures for at least 73 days per year on each screen in Korea.

3.2 Broadcasting Quotas⁹

A terrestrial broadcaster, program provider, cable system operator, or satellite broadcasting operator must include the following percentages of Korean content in its quarterly programming:

- (a) 80% of the quarterly programming hours of a terrestrial broadcaster or program provider that uses terrestrial broadcasting to provide its programming;
- (b) 50% of the quarterly programming hours of a cable system operator or a satellite broadcasting operator; and
- (c) 50% of the quarterly programming hours per channel of a program provider that does not use terrestrial broadcasting to provide its programming.

A terrestrial broadcaster providing programming in the following genres must include the following percentages of Korean content in its annual programming:

- (a) Animation: 45% of the broadcaster's annual animation programming hours;
- (b) Movies: 25% of the broadcaster's annual movie programming hours; and
- (c) Music: 60% of the broadcaster's annual music programming hours.

⁹ See Annex I in the Korea-US FTA, Communication Services—Broadcasting Services sector in Korean commitments.

A cable system operator, satellite broadcasting operator or program provider providing at least some music programming must include Korean content in 60% of its annual music programming hours, per channel.

From 15 March 2012, Korea shall not require a cable system operator, satellite broadcasting operator, or program provider providing at least some animation or movie programming to provide a percentage of Korean content in its annual programming hours, per channel, that is greater than:

- (a) Animation: 30% of the broadcaster's annual animation programming hours; and
- (b) Movies: 20% of the broadcaster's annual movie programming hours.

Certain separate content quota requirements apply to a broadcaster specializing in religious programming or education programming, or to a terrestrial DMB operator. A satellite DMB operator is subject to content quota requirements applied to a satellite broadcasting operator.

No later than the date the Korea-US FTA enters into force, Korea shall permit no less than 80% of quarterly programming hours of terrestrial broadcasters, cable system operators, satellite broadcasting operators, or program providers of foreign content per genre to be the foreign content of a single country (single-country content ceiling).

Under the Broadcasting Act, the Korea Broadcasting Commission (KBC) may require that a specific percentage, no greater than 1.5% of a terrestrial broadcaster's annual programming hours be newly-produced Korean animation. As of 30 April 2007, KBC requires that 1% of the annual programming hours of Korea Broadcasting System (KBS), Mun-hwa Broadcasting Corporation (MBC), and Seoul Broadcasting System (SBS) and 0.3% of the annual programming hours of Educational Broadcasting System (EBS) be newly-produced Korean animation.

3.3 Restrictions on ownership¹⁰

One provider (person or corporation) can only own one business in terrestrial broadcasting and satellite broadcasting. Cable system operators and program providers can own more than one broadcasting and transmission line. But they can be restricted by the government with regards to market share and the number of providers. One provider can own terrestrial broadcasting, satellite broadcasting, and cable broadcasting except a combination of terrestrial broadcasting and cable broadcasting. In cable broadcasting, one provider can serve system operator, network operator, and program provider but they can be restricted with regard to market share and the number of providers. According to the recent enactment of the Broadcasting Law and Internet Multimedia Broadcasting Business Law enforced by President Lee's administration, the trend is changing. Newspapers and large companies can hold a 10% stake in terrestrial broadcasting, a 30% stake in cable broadcasting, and a 49% stake in IPTV or a news channel.

A news agency organized under foreign law may supply news in Korea only under a contract with a news agency organized under Korean law which has a radio station license, such as Yonhap News. A foreign government, foreign person, or deemed foreign person may not hold:

- (a) an equity interest in a terrestrial broadcasting and relay-only cable operator;
- (b) in aggregate more than 20% of the total issued stocks or equity interest in a program provider that is engaged in multi-genre programming;

¹⁰ See Broadcasting Act of 2011 and Annex I of the Korea-US FTA, News Agency (*News-tong-sin-sa*) Services and Communication Services—Broadcasting Services sectors in Korean commitments.

(c) in aggregate more than 10% of the total issued stocks or equity interest in a program provider that is engaged in news reporting;

(d) in aggregate more than 33% of the total issued stocks or equity interest in a satellite broadcasting operator; or

(e) in aggregate more than 49% of the total issued stocks or equity interest in a cable system operator, a signal transmission network business operator, or a program provider that is not engaged in multi-genre programming or news reporting.

No later than three years after the Korea-US FTA enters into force, Korea shall permit a foreign person to hold up to 100% of the equity interest in a program provider that is not engaged in multi-genre programming, news reporting, or home shopping.

No single person may hold in aggregate more than 40% of the total issued stocks or equity interest in a terrestrial broadcasting or a program provider that is engaged in multi-genre programming or news reporting, unless such broadcasting primarily provides religious or missionary content. Such limitations do not apply to the Government of Korea and a corporation established by a special law (e.g. the Mun-hwa Broadcasting Corporation (MBC), which is established under the Broadcasting Culture Promotion Act).

3.4 Nationality Requirements¹¹

The following persons may not serve as chief executive officer, president, or similar principal senior officer, editor of a news agency, or a member of the board of directors of Yonhap News or the News Agency Promotion Committee:

(a) a foreign national; or

(b) a Korean national not domiciled in Korea.

Neither a foreign national nor a Korean national who serves as chief executive officer, president, or similar principal senior officer of a foreign enterprise may serve as chief executive officer, president, or similar principal senior officer or chief programmer of a terrestrial broadcaster, satellite broadcasting operator, cable system operator, program provider, signal transmission network business operator, audio cable operator, or relay-only cable operator. All members of the boards of directors of the Korea Broadcasting System (KBS) and the Korea Educational Broadcasting System (EBS) must be Korean nationals.

3.5 Domestic Regulations¹²

A license for terrestrial broadcasting, a cable system operator, satellite broadcasting operator, signal transmission network business operator, or a program provider may only be granted to or held by the Government of Korea, a local government, or a juridical person recognized by Korean law. A license for a relay-only cable operator or an audio cable operator may only be granted to or held by the Government of Korea, a local government, or a Korean person. A license for terrestrial broadcasting, a relay-only cable operator, cable system operator, satellite broadcasting operator, or a program provider that is engaged in multi-genre programming, home shopping, or news reporting is granted through permission, whereas a license for a signal transmission network business operator, audio cable operator or a program provider that is not

¹¹ See Annex I of the Korea-US FTA, Communication Services—Broadcasting Services sector in Korean commitments.

¹² Ibid.

engaged in multi-genre programming, home shopping, or news reporting is granted through registration. A foreign news agency may establish a branch or office in Korea for the sole purpose of collecting news, but such branch or office may not distribute news communications in Korea.

4. CONCLUSIONS

The trade potential of Korean audiovisual services depends on whether Korean audiovisual service providers create high quality content that can be shared locally and/or universally. The most important prerequisite for high quality contents is undoubtedly the materialization of creative ideas. But producing content is a highly risky business and subject to increasing returns to scale, which means large pools of financing are needed as well as creative ideas. That leaves the last point for the globalization of Korean audiovisual services: global demand for Korean content that requires international recognition of Korean brand values for content.

Before the 1990s, it was hard to imagine that Korean films would enjoy international recognition. Every year from 1996 onwards, Korea has hosted the Busan International Film Festival, which has become the top film festival in Asia. Three factors may be identified for this sudden change of the status of Korean film: enhanced creativity due to the elimination of government censorship and cumbersome regulations in the 1980s; the entry of major conglomerates to the film industry in the 1990s; and frequent appearances in prestigious international movie festivals. All of these have contributed to the renaissance of Korean movies. It should be emphasized, however, that the elimination of unnecessary government intervention in the Korean film industry preceded the materialization of the three factors.

The importance of market-friendly government regulation for the development of an industry can be seen in the history of the Korean film industry. As noted in Section 2, the golden age of Korean film in the early 1960s suddenly receded as the new authoritative military government substantially increased its control over all aspects of the film industry, including limiting the subjects for movie producers. Such restrictive policies had a severe effect on the industry's creativity, which was revealed by the low quality movies of the 1970s. The Korean film industry underwent a major transformation in the 1980s, the most noticeable feature of which was the gradual reduction in government censorship that surely contributed to the diversification of Korean film.

At first glance, it seems that the Korean broadcasting sector has enjoyed the same success as the Korean film industry. Its total revenue and exports increased threefold and tenfold respectively in the 2000s. A closer look into the sector, however, reveals its weakness. For example, most of its exports rely on a specific genre, drama, and a specific region—Asia. In order to emulate the success of the film industry, Korea's broadcasting sector needs more efficient regulations that balance public interests, including the development of domestic content and cultural diversity, with the industrial aspects of this sector. As we have seen in Section 3, it has been mired in heavy government regulations, of which the objectives seem unclear. It is hard to find, for example, the rationale behind the strict limitation of foreign participation in the field of news reporting and multi-genre programming. Even dubbing is not allowed in foreign news. If the objective of the government regulations is to enhance the development of domestic content or cultural diversity, appropriate levels of broadcasting quota alone would be enough to achieve these policy goals. Since the business of content production is inherently risky, the government should rather encourage substantial capital investment in this sector, including foreign capital. More market-friendly regulation reform without sacrificing public interest would be a useful first step towards making the Korean broadcasting sector more globally competitive.

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