

A Hallyu Story

Behind the origins and success of the Korean Wave in China & the future of content in a broadband world

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Introduction

South Korea is a country known for its notorious Northern neighbor, spicy pickled cabbage *kimchi*, and industrious hard working serious people behind giant conglomerates making everything from chips & clips to ships.

But today, mention Korea to young Asians and it's associated immediately with *Hallyu* or Korean Wave, a term used to refer to the export of Korean pop culture, including soap operas, movies, games and music. No chips. No ships. And the only clips are of Korean performer Rain in front of packed stadiums in China, Taiwan, Hong Kong, and soon, New York.

2005 was the year when Korea & all things Korean became certified as Cool. How cool? Big bucks cool.

So cool that the total revenue earned from *hallyu* has doubled from U.S.\$500 million in 2002 to more than U.S. \$1 billion. So cool that the overseas box office from South Korean films more than doubled from U.S. \$31 million in 2004 to U.S. \$75 million. (2002 revenue: U.S. \$15 million). So cool that half-a million tourists took tours to this country of 50 million people and visited soap-opera locations & shooting sites in 2005. So cool that Lineage2, the latest game developed by the Korean game maker NCSOFT has 35 million users across 29 countries and generated U.S. \$22 million in revenues between Jan-Sept. 2005.

China contributes to 70% of *hallyu* revenues. So many Chinese now go under the knife to achieve the Korean look that there's a veritable boom in the demand for Korean plastic surgeons in China. Shanghai Media Group's flagship digital channel is a 24 hr. Korean drama channel. Cities like Beijing & Shanghai have malls that sell products, made-in-China, that are fashionable in Korea.



The leading actress from the hit Korean drama "Jewel in the Palace"



The first Korean drama was aired in China in 1993. CCTV, the national broadcaster, first aired a Korean drama in 1997. The term *hallyu* was coined in 1998 by a Chinese newspaper to denote fans of a now defunct Korean pop group H.O.T. Numerous Chinese channels have been airing Korean dramas on a fairly regular basis. In 2002, 67 Korean dramas were aired on Chinese TV. By 2004, it was more than 100.

But it was in 2005 that the Korean Wave crashed ashore. The tipping point was reached when Hunan satellite TV, an upstart TV channel trying to attract a younger, more urban audience, telecast ``Jewel in the Palace'', a Korean cuisine drama that tells the story of Janggum, who struggles in her life to develop from a child fugitive to a court lady and finally the first female royal physician.

For Korea, it's been a dramatic transformation from being a 'hard power' to a 'soft power'. How did a country known for companies making boring industrial products end up being the arbiter & exporter of cool? A quality that's elusive to define and even harder to create & export.

Is it all because of content?

Content plays a significant role in the popularity of Korean dramas in China. Relevant, contemporary, very good looking actors wearing very fashionable clothes, dealing with family issues that Chinese viewers can relate to, and a adherence to Confucian culture that's been lost in China's rapid modernization. High quality & unique content play a very important and critical role in *hallyu* but to credit everything to this is missing the forest for the trees.

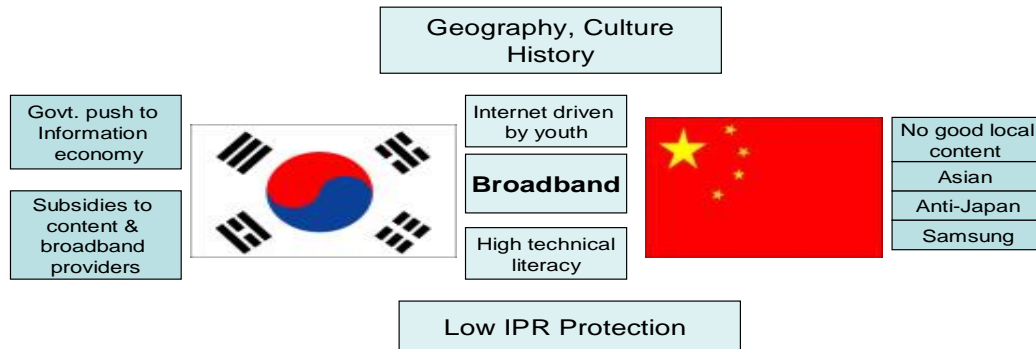
The success of Korean dramas in China is a story of an overnight phenomenon years in making. It's the cresting of a wave that's been quietly building over a couple of years. A wave triggered by a unique set of circumstances coming together at the right place and right time across two different countries, economies, cultures, and people.

But no wave is built suddenly. A wave builds far out from land, starting out as a mere ripple created by the wind, before heading towards the shore, building momentum before peaking in shallow waters and crashing on land.

This article explores possible factors, **beyond content**, that could have triggered the wave. In fact, the premise of this article is that *hallyu* is about how determined Govt. policy, increasing internet & broadband penetration, and lack of intellectual property protection can actually help, rather than hinder, content producers.

The success of *hallyu* has tremendous implications for the future of content in a broadband world. It's a possible strategy for Hollywood & Bollywood to penetrate and make money in China; it shows how TV channels in the future will stay ahead of the curve; it provides tips for Chinese brands trying to go global; and finally, it offers a glimpse of what content in Asia will look like in five years time.

What Drives Korean Content?



Korea: From Crisis Emerges Opportunity

Waves are caused by winds blowing across the surface of water. And the winds that triggered the Korean Wave were caused by the South Korean government's zeal to move Korea from manufacturers of hardware to creation of software after the country's financial crisis in 1997.

Divided into two after the Second World War, and after suffering a brutal war with its new neighbor between 1950-53, South Korea made dramatic progress and became an industrial powerhouse less than 50 years later, creating powerful family run *chaebols* like Hyundai and Samsung.

Korea's economic development was due to strong government involvement, American & Japanese assistance, top-down economic leadership, and a very high degree of control. From the beginning, the country was export-led, first breaking into global markets in heavy industry by virtue of low-cost. Something they are replicating successfully in the automobile category today.

Korea's global position today, the 10th largest economy in the world by GDP with a population of just 50 million shows the spectacular comeback since 1997 when it experienced a financial meltdown that led to one of IMF's largest ever financial rescue acts.

The 1997 crisis and the rise of China as a manufacturing hub convinced Korea to create intellectual capital. Hardware was out. Software was in. Knowledge economy was the focus and Korea would become an information-economy. This would take advantage of

Korea's high literacy levels and the strong ability to manufacture sophisticated telecommunications & information technology products.

Korea: A Broadband Nation is a Content Nation

To execute on its vision on being an information society, The Korean government spent billions in building a fiber grid wiring the country. To ensure fast adoption, it offered financial incentives to phone companies to link homes and lowered access charges by ending the state-owned telecom's monopoly. It also encouraged its hardware producers to work on cutting edge products that could take advantage of this environment. This led to development of CDMA where Korea and Samsung have leadership positions in the World. What also helped was Korea's geographic location as a landing and connection point for fiber cables leading from the U.S. to Asia. Additionally, 40% of Koreans live in apartments, making connections easier to roll-out.

By 2002, with 58% of its population online and almost all of them on broadband, Korea was ranked as the Broadband Capital of the World by Wired magazine while the rest of the World was still installing dial-up. Korea leapfrogged the entire process.

Today, Samsung and LG are among the top 5 mobile producers in the World. The first half of 2006 will see the launch of WiBro, a home-grown new wireless high-speed data-communication service that is operational at speeds of 120 kilometers an hour.

According to statistics released by Korea's National Internet Development Agency (NIDA), as of June 2005;

- In a country of 50 million, 32.57 million people had used the internet at least once in the previous month. They represent 72% of the Koreans over 6 years old. 55.6% used the internet in the previous week
- 24.64 million users were between 6 to 30 years old, with almost universal access to the internet
- The average user spent 1.8 hrs. a day online. The younger users spent more than 2.3 hours a day online
- 92% of the users access the internet either through xDSL or cable modems. Telephone modem access was in low decimals.
- 90.8% of the users utilized the internet for entertainment content. The second highest used category after info-search, and even ahead of email.

The broadband user-base in Korea today is more than 5 years old, a lifetime by Internet standards. The sizeable number of users and government subsidies to content companies led to an explosion of content geared towards broadband users.

Korea already had a booming animation industry supplying content to American, European and Japanese producers since the late 80s. . The U.S. show, The Simpsons, has been animated in Korea since 1989. The animation companies were the first to benefit

from the broadband revolution and were soon adapting their skills to build short animated online features and games.

Seoul based NCSOFT is a powerhouse in online-gaming and its games are all the rage in Asian countries. In China, the world's largest internet market, gaming is one of the key reasons for using the internet. The dominant players in Chinese online game industry are Koreans. Chinese start-up game companies are emulating the Koreans. The first popular online game in China was Korean, which was licensed to a Chinese company. The gaming industry is notable for its ability to successfully charge for its product in China. Gaming generated 43% of the U.S. \$ 1 billion bought in by the *hallyu* in 2005.

File-sharing, hitherto restricted to software, games and Hollywood content, took off. Korea has consistently been on the U.S. watch list for infringements of intellectual property rights. Though it has made significant progress over the years, even the most recent review by the United States Trade Regulator (USTR) indicates South Korea has to make significant progress in protection of intellectual copy right (software and film).

Due to a now-eased regulation that theatres in Korea show only Korean movies for 146 days of the year, Korean film industry has thrived. With more of the younger viewers spending time before the PC & reducing the time spent on watching TV, Korean TV channels starting putting their content online. Thousands of eager Korean youngsters had already started to do so. This was a purely domestic phenomenon. Language was a significant barrier, and not many other countries had such high broadband penetration at that point.

China & Korea: Bound by Geography, History & Trade



Korea is very close to China. It takes a little under two hours to fly from Shanghai to Seoul, about the same it takes to fly to Beijing. There are direct flight connections between Seoul and more than 20 cities in China, bringing in trade and tourists.

China Korea relations have been on the upswing since 1992 when they were normalized after the Korean War. Today, China is Korea's single largest trading partner and the #1 destination for private investment, which totals over U.S. \$ 10 billion & employs more than a million Chinese. There are more than 30,000 Korean students studying in China. Korea's manufacturing led economy relies heavily on China. When the Chinese premier announced that the Chinese economy will slow down, the Korean stock exchange plummeted. Korea looks towards China for help to resolve the situation with North Korea.

Increasing differences of opinion with its traditional ally, the United States, over reunification with North Korea, and continued dispute with Japan over its war-time record, has turned China into a strategic partner for Korea.

China: The Dragon Goes Online

According to data collected by China Internet Network Information Center (CNNIC), a Govt. body, China's internet population surged from 26 million users in 2001 to 103 million users in 2005. 55% of users were using broadband to access the internet, and were less than 25 years old. 38% of Chinese internet users go online to download movies and dramas, the single largest category of use.

To a large extent, the Chinese internet story was slower version of the Korean one, taking into account the size and lower affluence of China.

Once the millions of young Chinese were online, they began a desperate search for information and connections. Chinese content, including gaming, was limited in the early days. Naturally, they started playing Korean games and visiting Korean ftps to download share-ware or illegal copies. Hollywood movies followed the games, and soon Korean content followed, complete with Korean commercials. The communal nature of internet access in China, where many access it in cyber-cafes, ensured rapid dissemination. Before long, there were organized online rings that would download Korean content, incorporate sub-titles in mandarin, and share it freely with other users. These communities exist even today though in addition to online, they also rip off direct Korean satellite TV feeds, and DVDs from Korea.

What gave fillip to the Chinese online search for content was the lack of contemporary and attractive dramas on Chinese television. Unable to explore many contemporary issues due to Government control, Chinese television is dominated by historical and period dramas catering to an aging Chinese population.

From the internet and the young users who download and watched Korean content on their PC screens, the Korean dramas hit the Chinese streets. Sporadically at first, clustered around university campuses where the internet users congregate, and then near their homes. Once the Korean dramas came on DVDs, it reached a wider segment of the audience: those with dial-up connections, or with no internet.

Around this time, local TV stations in smaller cities picked up on the trend and started broadcasting Korean dramas. These dramas were not massive hits, but built enough of a following to ensure more than 100 were telecast across China in 2004. These stations couldn't afford Hollywood content and the audience that watched TV at home wouldn't have liked it anyway. When the youth wanted Hollywood, it went online anyway.

China: The Dragon Likes *Kimchi*

Why did Korean dramas do well? For the Chinese youth, Korean dramas were unique, portraying life in a country (only 100 minutes away by flight) where fashionably dressed, very good-looking Asians tackled contemporary issues. The Korean characters said and did things that the Chinese youth wanted to do or at least see on their TV screens, but knew they never could.

Korean dramas filled a space between the distant star-studded Hollywood product and the drab content aired everyday on the Chinese TV screens.

Right now, there are two distinct types of Korean dramas available in China. The first type of dramas is available on the internet, DVD, and some local channels. With themes like love in Prague, celebrity meets commoner stories, they target the youth. The second type of dramas, focusing on inter-family intrigue, respect for parents, hardships etc, are telecast on TV channels with their primary audience being older people. What the older Chinese find appealing is the essential and traditional values that China has abandoned in its race for modernization, but which Korea still holds dear. Korean dramas offer readily identifiable themes of family, hardship, intrigue, and sacrifice, all set against the backdrop of society driven by Confucian values that are very similar to China.

The drama that a TV station chooses to air depends on the kind of audience it wants to attract or retain. CCTV 8, the drama channel of the national broadcaster CCTV, started broadcasting Korean dramas on a regular basis since early 2004, late at night, with themes catering to its strong base of older viewers. In contrast, Hunan Satellite, an upstart provincial station with aspirations of going national, airs dramas focused on gaining share among younger viewers.

China: Morning Calm follows the Rising Sun

Japan is known as the Land of the Rising Sun. Korea, the Land of the Morning Calm.

Over the past decade, Japan lost some of its shine due to its long period of stagflation & deflation. Japanese products, once unique and well-made, were being matched by Korean and Chinese products that offered more value for money and equally good quality. In the early nineties, when relations between Japan and China were more cordial, there were quite a number of Japanese dramas aired on Chinese TV, and Japan was cool.

But both China and Korea have never truly got over the memories of the brutal Japanese occupation during the Second World War. Recent years have seen a worsening of

attitudes towards Japan due to the refusal of its Government to atone for its past, and its continuing the practice of venerating war criminals.

Things took a turn for the worse in May 2005, when thousands of Chinese got together, with the covert encouragement of their Government, to stage a procession through the major cities of China protesting against Japan. Japanese people, autos, shops, restaurants, and even the Consulate in Shanghai got attacked.

Japan was out. Korea was in.

China: Samsung's Rapid Rise

Anti-globalization protestors & religious radicals in developing countries know that consumer brands represent the values of their country of origin. In any protest march, these symbols of globalization, often associated with the United States, are targeted. Starbucks, KFC, McDonalds, Pepsi, Coke....the list goes on.

Before Japan's economy went into a tail-spin, brands like Sony, Panasonic, Nintendo, Sega, Toyota and Honda drove Japan's reputation and image as a cool place to be. Japan became cool because some of the strongest and most innovative brands in the World were Japanese.

Samsung, a boring Korean *chaebol* a decade ago, is now one of the World's coolest brands. Fuelled by a strong engineering base developed in the industrial days, Samsung has expanded into consumer electronics. Where it's really different from other *chaebols* is its belief in design. In 2004, five Samsung products won the coveted Industrial Design Excellence Awards (IDEA) in the U.S. Between 1999 and 2004, Samsung received 19 IDEA awards, tying only with Apple, for the first place.

One reason why Korea became cool and thus provided a fillip to Korean content is that the country rode on the back of Samsung's success story. Samsung is cool. Samsung is Korean. Ergo, Korea is cool. According to a study conducted by the Korea Trade-Investment Promotion Agency (KOTRA), Samsung is the 9th most influential multi-national brand in China.

China, with more than 320 million mobile phone users, is the World's largest & fastest growing mobile phone market. The category is very competitive and is divided in three layers. The first layer consists of the big 3: Motorola, Nokia, & Samsung and the last layer comprise all the Chinese brands. In the middle are other foreign brands.

Even though Samsung has a smaller share of the mobile phone market compared to Motorola or Nokia, it's the only brand to increase its share over the past three years.

	MOTO	NOKIA	SAMSUNG
% Market Share (base: all mobile phone users)	18.8	20.3	12.4
% Users between 15-44 years	74.7	78.4	83.0
% Female Users	38.4	39.7	41.5
% first choosing 'Brand' as reason for buying mobile phone	10.4	10.7	11.8
% first choosing 'Design' as reason for buying mobile phone	7.4	7.0	8.8
% Internet access yesterday	18.4	22.8	25.1
<i>Source: China Marketing & Media Survey (CMMS) Autumn 2005 covering top 30 Cities</i>			

Though the differences between the brands are only in low single digits, considering the size of the market, each percentage point represents thousands of people.

Samsung's user profile is distinctly different. Samsung has younger users and is skewed to females more than the other brands. Critically, Samsung users are willing to pay a premium. They rate brand and design higher than price as the first reason for choosing a mobile phone. In a category where there's constant pressure on prices, particularly from the Chinese brands, Samsung charges a premium. Is it any surprise that Samsung users are also heavier internet users?

Samsung's target consumers in China are young, fashionable & trendy. They are the consumers who spend more time on the internet than in front of their TV, the kind of people who latched on to the Korean wave first. What also drives Samsung & other Korean brands image is the sophisticated in-product placements within the Korean dramas. Though meant primarily for the Korean audiences, such placements have had an immense spill-over effect into China and embellished the Korean brands.

It's important to understand why it's Samsung & not Hyundai that's driving this change. This is the contrast between the Old Korea & the New Korea. Hyundai is a classic Old Korea story. It sells cars, an industrial commodity, on a clear positioning of getting more for your money. Hyundai's target audience is middle-aged males; the kind who don't access the internet much or watch Korean soaps.

Samsung is in the consumer technology category & is positioned perfectly as a lifestyle brand that mobile phones have become today. This category is not just about functionality anymore. Any new feature is quickly replicated & offered at a lower price by competitors. Hence, Samsung has consciously moved away from functionality to design and image. Samsung combines cutting edge technology with brilliant form & design.

It's exactly what Korea as a country has done-moving away from commoditized hardware to value-added software leveraging its formidable skills in science & technology.

The Future of Content

Content drives everything. But it needs a medium for distribution. Traditionally, it used to be television, DVDs, and movie screens. One-way, organized, push-down. Now, it's the internet. Unlike the traditional forms of distribution, content via the internet can cross borders quite easily without generating any revenue for any of the content producers. It's also clear that content needs the right socio-economic-cultural atmosphere to transmute between different countries.

High internet & broadband penetration in Korea and China & low protection of copyright laws enabled Korean dramas to spread. Without high broadband penetration, such sharing (between Korean and Chinese users) and even within Chinese users themselves would be impossible. And without the right socio-cultural history, such content wouldn't have found a ready audience.

This is true not just for content migration from Korea to China, but also between any two countries as long there's a big fat pipe *aka* broadband. The medium is the message.

This is why this sort of wave will never automatically occur for Bollywood, the Indian content factory. Despite proximity to China and a genuine interest by Chinese in all things Indian, India is not a broadband society. Content migration online is impossible. The only way Bollywood can gain a market in China is by reaching out to Chinese viewers through television. But TV is skewed to older viewers. To reach the young Chinese and to make Indian content cool, there must be a conscious decision to push Indian content online and on street DVDs. There'll be no money made initially, but in a year there'd be enough interest to sustain Indian TV dramas and movies on mainstream TV channels. That's when content is monetized.

What people in other countries need is exposure to foreign content: exposure occurs when content is seeded and then distributed rapidly/freely: and freeware shouldn't be a barrier if there's no money being made in the first place; eventually, that content will migrate to a TV channel and will find a ready audience to be monetized; additional income is generated by tie in to tourism, sale of accessories, clothes etc. A billion dollars richer, without even accounting for tourist etc, Korea can attest to this fact.

Countries, content providers and TV channels that understand this will prosper.

Hollywood is another story, particularly with TV serials. Hollywood needs to realize that people are watching its content anyway, and instead of trying to generate 100% revenues from the beginning, it should try and be realistic and keep expectations to the minimum. Eventually, as the Korean Wave experience shows, revenues will be generated. Else, what happened with *Desperate Housewives* in China recently will be repeated.

Season 1 was aired in China, on the national broadcaster CCTV 8, almost a year after it ended in the United States. By then, almost all the people who usually watch Hollywood movies and dramas were watching Season 2 on DVDs or online. Result: *Desperate*

Housewives had terrible ratings. This meant that the TV station, despite being desperate for new differentiation content, would be wary of airing another Hollywood drama anytime soon, and Hollywood has lost potential revenues.

Ideally, *Desperate Housewives* should have aired within a month of the season's conclusion or even within a week of every episode's telecast in the U.S. Hollywood's system to windowing a release across different mediums and countries is bound to collapse within a decade even in the United States. All it does in China is to restrict revenues and provide an opening for Korean and Indian dramas to come in. Instead of being so protective about its content and watch it getting pirated, Hollywood should try and control the distribution. Maybe, even give away its content online with advertiser content embedded in it.

Hallyu also represents how a niche trend, driven by the internet, reached popular television and became mainstream. Korean dramas were picked up online and shared within Chinese youngsters for years. It then spread to DVD copies on the street, thus broadening its appeal among older non-internet users. By the time it hit the Chinese TV screens, the Korean dramas were a well-established genre and had a sizeable number of fans, thus ensuring their success.

This is a reversal of classical mass-niche content integration models, and quite possibly a model for how content will make its way to TV screens in the future.

For TV channels, particularly in the West, the economic model depends on airing the show on TV first and then offering it online (for example: *The Late Show with John Stewart*). In future, shows that'll succeed will be online first, before moving on to channels and broadening the audience base. The channels on which these shows are aired will themselves be niche. Again, John Stewart's show has acquired buzz not on ABC, but on Comedy Central. In markets with pay-TV, such content will move quickly to niche channels. But in other markets, it'll move from the internet to DVDs to the mainstream channels.

It's well and truly possible today to launch a web-only 'TV channel' that aggregates and distributes content of relevance to a specific audience: it's already happening in porn. Current TV, the channel started by former U.S. Vice President Al Gore, represents another interesting model: user generated content on niche platforms integrated with the web. It's a little too early to rely on user-generated content. The future of programming will lie somewhere between internet inspired & user-generated content.

Another important learning from the role of Samsung in making Korea cool is the contribution of champion brands to a country's image. Numerous Chinese brands trying to go global (Haier, Lenovo, Bird, TCL) shouldn't forget the impact of their country of origin on consumer perception. These brands also have the opportunity to embellish China's image. This is particularly important for technology brands. Associations with content in foreign markets that plays to Chinese stereotypes (like kung-fu) will harm the

brand. But associations with the international elite who represent the best of their country, like noted Chinese film directors Ang Lee, John Woo or Wong Kar-wai, can do wonders.

Finally, what we are seeing now is the dawn of Pan-Asian content. There's already a growing backlash against Korean dramas in China & Taiwan in order to protect the local content industry. The Chinese's TV regulatory authority, SARFT, has reduced the quota of Korean dramas by half in 2006. Taiwan is mulling a move to ban foreign (Korean) serials between 8PM–10PM. For Korean dramas to survive in future, co-productions (Chinese actors in Korea, Korean actors in China, joint cast & crew, co-production with a Chinese TV station etc.) will be the norm.

Fuelled by broadband connections either at home or at cyber cafes, strong resurgent pride in their Asian roots, and lack of stringent piracy laws, there's a new generation of viewers who have access to the best of Asian content and who are at home discussing Chinese or Korean film stars. This'll drive collaborations between players in the content landscape across Asian countries. It already started to happen. In 2005, *The Promise*, one of China's biggest movies, directed by a top rated Chinese director, starred Japanese & Korean actors in the leading role. Jackie Chan's latest blockbuster, *The Myth*, was shot in India, with an Indian actress in a leading role. The dance sequences for *Perhaps Love*, a Chinese movie musical on the lines of *Moulin Rouge*, were choreographed by a Bollywood dance director. By 2010, expect to see a truly Asian movie with a cast and crew of Indians, Chinese, Koreans, Japanese, Thais and others.

This movie will be conceived, financed, managed, and marketed by Hollywood.