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**The Korean  
Wave**  
From A Macroeconomic  
Perspective

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## **Abstract**

South Korea is the first Asian tiger after Japan and in less than 70 years was able to move from newly independent nation to first-world country.

The purpose of this research will be to highlight how a politically disadvantaged country has managed to become a powerful international player relying consistently on its resourcefulness, its people and its strengths.

South Korea has in fact only ever used its “soft power” to achieve this position on the international scene. Focusing on the sources of this soft power and the main determinants of its economic development, this thesis will explain the phenomenon called “Hallyu”. Also defined as “Korean Wave”, the Hallyu describes a growing popularity and international interest toward Korean culture that boosted Korean exports and allowed the county to flourish.

Particularly this work will observe South Korea’s most important industries that have made this phenomenon possible and at the same time continue to be fueled by it.

Case studies of Samsung, Hyundai and KIA Motors will further support the argument of Korean industrial development.

Finally, this piece of research will expose the doubts surrounding a possible end of the Korean Wave and the reasons that could disprove such claim to draw a comprehensive picture of the phenomenon.



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## Introduction

Seventy years ago, South Korea was a small and poor country that had just come out of a difficult war and that was facing independence for the first time in its modern history. Despite its major weaknesses, the Government wanted to improve the country by undertaking a process of fundamental economic growth that would bring South Korea among the richest countries of the world.

This research will concentrate on a phenomenon called Korean Wave or Hallyu in Korean (hereafter these words will be used interchangeably) that signifies the extensive popularity acquired by Korean products, mainly cultural, in foreign societies.

The first chapter will thoroughly explain the entirety of the phenomenon, starting from its origin to its implications for the Korean nation's influence in the international scenario. The Hallyu is in fact an important factor in increasing the soft power of South Korea and the country of origin effect that is widely used in nowadays marketing.

The Korean Wave is however only the end result of a larger process of macroeconomic development that the Korean peninsula has experienced after the Korean War ended in 1953. After that a series of economic policies and late-comers maneuvers have expanded the country's economy until South Korea was globally recognized as a First World country. Many different steps were involved in the evolution of the Korean society that resulted in the title of "Miracle Economy" that has defined South Korea ever since.

Chapter one will further describe that the process of growth was not linear as the nation had to overcome a serious financial crisis in the late 90s but eventually the economy re-started and the Hallyu did not stop.

It is not only the Government that can lead the macroeconomic success of a country, productivity must also come from industries. Therefore chapter two will focus on the industrial sector of South Korea, particularly describing the peculiarities of big Korean business groups, called Chaebols.

This paper will concentrate on the incredible expansion of three main Korean industries: the steel industry that after flourishing thanks to the US war affairs in Vietnam continued to expand, as we will see with the case study of KIA Motors; the automobile industry in which Hyundai Motors became the most important Korean car brand in the world; finally, the electronic industry that is one of the expressions of the

advanced technological talent of South Korea and the major field of production of Samsung (the biggest Korean Chaebol).

Because Hallyu is mainly hinged on cultural products, the third chapter will go through the major changes in the country's macroeconomic scenario brought by the implementation of a Service Economy.

In particular the entertainment industry is a big representation of cultural products as it stems from individuals' creative inventions. Some authors believe that the proper recognition of the Korean Wave phenomenon started from the diffusion of South Korean music and TV programs in other Asian country's media network. Therefore a specific paragraph will be dedicated to this creative industry.

Regarding the connection between Hallyu and Korean macroeconomic growth Ryoo W. (2009) states:

«Today, observers generally agree that the most likely explanations for the popularity of South Korean entertainment products throughout Asia include South Korea's high income levels and the close cultural proximity with neighboring Asian countries. As a result of these and other economic developments, South Korea is now the 12<sup>th</sup> largest economy in the world, and its entertainment companies are able to finance production values much higher than in much of Asia»

(Ryoo W., 2009, pp. 5).

Subsequently, chapter three will describe the evolution of the tourism industry and the somewhat unusual growth in plastic surgery field of this nation.

No country's economy grows from governmental policies alone, all great changes eventually come down to the people. South Korean society has some particular characteristics that made it possible for such a rapid economic expansion to take place. Some of these are part of the Confucian mindset of people and others are the result of a more modern, Western-like influence.

In chapter four, these factors will be explained starting from the health care system, to the education system and the household structure. All of which have seen adjustments due to both Government's regulations and proper social changes, evidences of a thriving society.

The final chapter of this piece of research is an analysis of the present situation of Hallyu and its most recent developments. From East to West, in fact, perceptions and considerations about this phenomenon have changed and will continue to change in the future.

Some authors even went as far as saying that this Wave has now stopped, but there might be some elements that suggest otherwise and that we will see in chapter five.

Because Hallyu is a cultural phenomenon, it can be adjusted and modified by the people that are part of it. Such innovation can come from the consumers' reception of it, from the Korean Government's approach or from the Korean firms' innovative power.

Furthermore in the final chapter we will better understand the extent to which advanced technology shapes Korean people's lifestyle, with a particular focus on how this helped the Government in dealing with Covid-19 emergency.

Just like any diffusing phenomenon, even the Wave has its up- and downsides so it might be useful to draw some conclusions about its real value after considering all of its aspects and consequences.



## **Chapter I: The Korean Wave**

In this chapter, we will look into the proper definition of the Korean Wave to put more concrete boundaries on such a wide phenomenon. With a still unclear origin, the Wave has brought significant benefits in South Korea's economy that spread across many industries. It is important to note, however, that none of the results achieved were attained randomly, the people and the Government worked hard to improve their country.

So this chapter will briefly introduce the approach adopted by South Korea to increase in soft power and what that meant for the country.

The Korean Wave has been a key factor in establishing a more sophisticated country image for the Korean peninsula allowing the latter to exploit the deriving benefits both in terms of reputation and in terms of consumers' willingness to buy.

Finally, we will concentrate on the main historical developments that brought the country in the position to undertake its remarkable economic growth, starting from its initial difficulties right after the war to its capabilities to catch up with other countries' industrialization.

### **1.1 Defining Hallyu**

Starting from a couple of decades ago, South Korean culture has started gaining popularity in foreign markets and as the interest grew, a new economic phenomenon was born: the so called Korean Wave or Hallyu.

Huh C. and Wu J. (2017) explain how this K-Wave have not only brought an increase in exports of physical goods but also a substantial growth in South Korean influence on the international scene.

Although widely used today, it is still unclear where exactly the term "Hallyu" comes from. Kim J. (2007) identified three possible origins for this specific word. A first hypothesis is that it was first invented by the Korean Ministry of Culture and Tourism in 1999 to promote Korean music in China. A second theory suggests that it was actually taken from the Thai expression "hailhallyu" which translates to "ice storm in summer" when it was used to refer to the sudden unexpected success of Korean programs in Thai television. Finally, a third possibility is that it started from a Beijing

newspaper that in 1991 first talked about Chinese youth's interest in Korean music and dramas.

Independently of the actual first use, the word was made popular as the press continued to adopt it to describe a variety of practices connected sometimes more closely and sometimes more vaguely to Korean culture. It is not a coincidence that in all of the three possible origins expresses by Kim J. (2007), the Hallyu was referred to the entertainment industry. People seeking entertainment are in fact in a very receptive mood for new information and were therefore more easily intrigued by Korean culture.

As more and more people start using the Korean Wave to comprise a wide range of popular Korean products, it is important to point out that no Korean firm can actually adopt the Hallyu label right away. Only after gaining popularity in a foreign market, an item or creative product can become part of the phenomenon.

Like any important cultural phenomenon, Hallyu did not start from one day to another, it was a gradual diffusion of many individuals and consumers appreciating Korean products that slowly gained popularity one step at a time.

Nowadays, you can watch Korean dramas on Netflix, buy the newest K-Beauty products at Sephora and drive home in your most accessorized Kya car. All of these examples hold true thanks to the Hallyu.

The emergence of such wave of Korean culture was neither expected nor programmed, but once recognized, the Korean Government has undergone several measures and policies to foment it and nurture it across the globe.

As previously mentioned, one of the most important effects of the Korean Wave was to boost the country's exports. In the early 2000s, in fact, Korean exports were almost twice OECD's countries average exports<sup>1</sup>. Such result was only possible because the South Korean Government decided to focus on an export-led economy to foster new economic growth (Park et al., 2008).

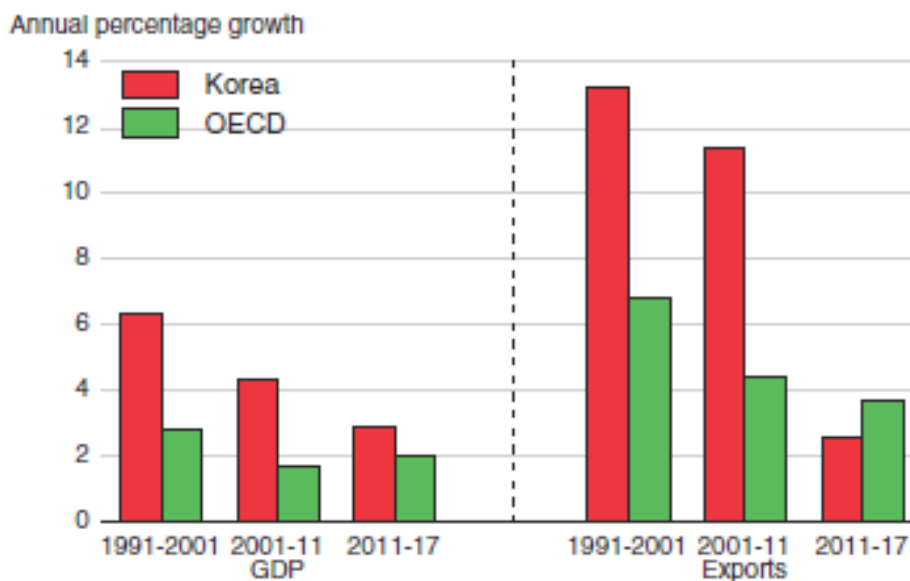
Furthermore, through the implementation of the Bank of Korea Act, the Government focused on an inflation-targeting policy that had the primary goal to mitigate inflation and achieve price stability even in a situation of inflation shock coming from other

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<sup>1</sup> OECD (2018) *Economic Surveys: Korea*, June 2018

countries. However successful, export-oriented maneuvers have their limitations. As showed in Figure 1.1, as China started developing its economy further, Korean exports saw a decrease in the second decade of the 21<sup>st</sup> century. However inconvenient for the country, by the time Korean exports’ growth stopped, the Wave had already helped South Korea in cementing its position among the highest industrialized countries in the world.

Figure 1.1 - Korean Output and Export 1991-2017.



Source: OECD (2018) *Economic Surveys: Korea*, June 2018.

## 1.2 The Importance of Soft Power

Why is it so important for a country to be able to export its creative and cultural products? The answer is simple: power or, to be more precise, soft power.

First defined by Nye J.S. in 1990, soft power occurs when a country gets other countries to “want what it wants”. The ability to affect what other countries want tends to be associated with intangible resources, for instance culture, ideologies, humanitarian interventions, diplomacy and even institutions such as universities and research centers.

Soft power is sometimes described as strategic power as a country has to adopt a sophisticated allocation of its power instruments and resources to achieve a peaceful rise in importance. In a way, this type of power depends on a country’s capacity to

manipulate information and knowledge and derive a competitive advantage from it.<sup>2</sup>

An asset to soft power is anything that can create a sense of attraction.

Looking back in history, we can easily identify different examples of soft power, for example the wide distribution of Japanese technology which improved both the country image in foreigners' mind and boosted the country's economy.

At this point, it is important to mention that power is power, but there is a fundamental difference between hard and soft power. Hard power is the ability to coerce someone into acting in a way that they would not have acted otherwise. It comprises military interventions, economic sanctions to enforce a country's interests and what Wilson E. J. (2008) describes as instruments of Statecraft.

In contrast, soft power relies on persuasion and influence, usually entailing how certain actions will bring benefits to both parties.

Modern societies are incredibly familiar with the concept of influence. Marketers even created the word "influencer" to indicate an individual or entity with a high potential to affect other people's preferences. Therefore, it is not surprising that even nations have adopted ways to shape international relationships to their favor.

There are various benefits to be derived by a strong position of soft power:

« If a state can make its power seem legitimate in the eyes of others, it will encounter less resistance to its wishes. If its culture and ideology are attractive, others will more willingly follow. If it can establish international norms consistent with its society, it is less likely to have to change. If it can support institutions that make other states wish to channel or limit their activities in ways the dominant state prefers, it may be spared the costly exercise of coercive hard power. » (Nye J.S., 1990, p.167)

Nye's argument is particularly valid even in this decade as nowadays societies are highly interdependent and the use of hard power could have strong repercussions across many different countries, making the use of such coercive methods less attractive. It is thanks to the increase in value of international agreements and relationships that alternative, non-threatening forms of power could develop. Multinational corporations could never have flourished without an international

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<sup>2</sup> Wilson E.J. (2008), *Hard Power, Soft Power, Smart Power*, University of Southern California, Annals, AAPSS 616, DOI: 10.1177/0002716207312618.



community open to cooperation and trade. But such cooperation still needs a basis of shared values and ideologies to be consistent among different countries.

It is difficult for a country to directly decide to improve its soft power as usually it is not a straightforward action. Hard power can count on specific infrastructures and regulations from which it draws its stability, but culture is made of many small institutions that all contribute in their best way to a bigger scene that is constantly changing.

Even among academic studies, soft power is sometimes misunderstood as a manipulative form of control. Korean use of soft power, however, must not be mistaken with the notion of superiority. Although Hallyu's vague definition leaves space for such considerations, in no way this phenomenon encourages an interpretation of Korean culture's superiority over another. It should rather be seen as the willing acceptance of Korean cultural products in other societies.<sup>3</sup>

### **1.3 Country Image and Foreign Acceptance**

Living in a globalized society, we are used to the idea of products coming from very faraway places and the resulting competition among countries has led nations to be sensitive in the way they are portrayed (Hakala et al, 2013). Country image can be expressed as the real image of a nation perceived by another nation and it is the total of all informational beliefs about a country, but it is not static. On the contrary, country image evolves over time and can be influenced with the right practices because the conviction an individual has on an entity is based on their personal frame of reference. In this sense, a country has to behave like a brand and try to evoke certain values, qualifications and emotional triggers in consumers' minds. Developing a good country image can be very important for a state that wishes to become an important player in international markets.

Marketers are not new to the so called Country of Origin Effect which comprises the influence of a product's country of origin on consumers' perceptions of

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<sup>3</sup> Kim J. (2007), *Why Does Hallyu Matter? The Significance of the Korean Wave in South Korea*, Cheshire Faculty Research Committee, Manchester Metropolitan University, UK.

said product.<sup>4</sup> When building brand image in fact, it is essential to be able to leverage secondary associations for their capacity to bring greater brand equity. As Magnussons (2011) explains the relationship between country image and brand attitude represents the way in which people try to metabolize many information in complicated situations. When facing environmental complexity, in fact, our brain needs short cuts to take decisions quickly. This is not an unusual occurrence for modern consumers that constantly make purchase decision in a highly competitive marketplace. In some cases, country image can play a big part in the success or failure of a product.<sup>5</sup> Therefore, in order to increase the acceptance of its exporting products, South Korea had to cement its competitive advantage by improving its country image in the mind of potential consumers.

Individuals form mental images in many ways, for instance socializing, through the use of shared languages, experiences and symbols.<sup>6</sup> Favorable secondary associations attached to country image are part of a nation's intangible assets and can vary across all types of quality dimensions: from prestige to innovativeness, advanced craftsmanship, sophisticated design and technological excellence.

In the instance of South Korea, the first and most successful effort not only to bring out country image but an overall sense of luster for the country were the Olympic games of 1988. This type of mega events bring both tangible benefits, meaning those measured in monetary terms, and intangible ones, sources of soft power. South Korea's efforts were particularly meaningful considering that the event went smoothly even when the country was still living very tense relationships with its northern twin, North Korea. It is important to remember that no North Korean athlete participated to the Seoul games of 1988 and the event was not broadcasted in the northern country due to the strained situation between the two neighboring nations.

The Olympics brought many important opportunities to South Korean. First of all, expecting many tourists to visit capital, the Government invested in new

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<sup>4</sup> Kim Y. (2006), *Do South Korean Companies Need To Obscure Their Country Of Origin Image? A Case Of Samsung*, School of Communication, Ewha Womans University, Seoul.

<sup>5</sup> Kim Y. (2006), *Do South Korean Companies Need To Obscure Their Country Of Origin Image? A Case Of Samsung*, School of Communication, Ewha Womans University, Seoul.

<sup>6</sup> Kleppe I.A., Iversen N.M., Stensaker I. (2002), *Country Image In Marketing Strategies: Conceptual Issues And An Empirical Asian Illustration*, Journal Of Brand Management, NHH Norwegian School Of Economics, Bergen, Norway.

infrastructures that could help the city present itself in the best possible way. Offering a great experience to the people visiting for the first time meant winning a good reputation in the international community. It is fundamental to point out that globalization was not yet born in these years but its dawn was approaching and transnational relationships held a lot of importance even back then.

Also the telecommunication industry started growing thanks to the Governmental investments for the Olympics and with it several other sectors saw a big development. During the years prior to the Olympics, the average economic growth of South Korea was around 10%, one of the highest rates in the world. The GDP saw a decisive slow down in 1989, but remained a very successful results compared to the western economies at that time.<sup>7</sup>

For the Olympics event, many big foreign companies started moving their attention to Seoul and offering their sponsorships putting pressure on the Government to speed up the deregulation of other aspects of the Korean economy as well. For the first time, in the eyes of the world, South Korea was seen as a liberalized society.

The successful outcome of the Olympic games also had some important social implications. Through the many exhibitions and ceremonies, the country had the opportunity to show some of its tradition and culture to the whole world thanks to the massive media coverage of the occasion. The display of culture and power was enough to convince many other countries to forge diplomatic alliances with South Korea and therefore marking a proper inclusion of the latter into an international community.<sup>8</sup>

Larson J.F. (1993) commented on the event by stating that the 1988 Olympics not only helped to affirm South Korea's image around the world but also began to lead it in a positive direction and away from the crude legacies of the war that were still so fresh in the collective memory.

Today Korean country image is overall a positive one and its culture is definitely appreciated by foreigners. An indicator of this is the increase in Korean language classes enrollment of recent years. Between 2013 and 2016, American universities have experienced an increase of 14% in Korean class enrollment while the overall

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<sup>7</sup> Bridges B. (2008), *The Seoul Olympics: Economic Miracle Hits The World*, The International Journal Of The History Of Sport, Vol. 25 No. 14

<sup>8</sup> Bridges B. (2008), *The Seoul Olympics: Economic Miracle Hits The World*, The International Journal Of The History Of Sport, Vol. 25 No. 14

language enrollment was in a declining trend<sup>9</sup>. To have more foreigners speaking Korean is a resource for South Korea because it creates opportunities for Korean employers to expand overseas and because it means a warmer welcome to Korean citizens going abroad. Foreign acceptance of the Korean culture is therefore improved.

#### **1.4 Miracle Economy**

South Korea's metamorphosis from one of the poorest countries in the world to a major industrial power and important member of the OECD has been defined by experts of the World Bank as a miracle. But to better understand how this transformation has taken place, we need to go back in history and look at a bigger scenario.

As mentioned before, South Korea is one of the five Asian Tigers which also comprehend Japan, the first Asian power to achieve a western-like industrialization, Taiwan, Hong Kong and Singapore. Although we cannot extrapolate a proper recipe for success from their story, it is still informative to look at the path they had to wander to improve their economies.

The Tigers' growth is rather impressive just looking at the numbers: Western countries have undergone almost a century of moderate growth to gather their wealth, considering an average annual growth of 1.03%, while their Asian counterparts grew at no less than 8-10% per year.<sup>10</sup>

These Asian champions do not just share their successful development stories, they also are all high population density and none of them is rich in mineral resources. Because of their geographical proximity, through the years eventually they developed similarities in culture as well. South Korea in particular has been called by Paldam M. (2003) a Japanese-style Tiger, not for its sympathy toward Japan but for similar institutions established to guarantee an increase in productive efficiency.

Yet against the development showed by Western countries, there are certain peculiarities in the way these Asian Tigers enriched their economies. Usually in fact,

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<sup>9</sup> Pickles M. (2018), *K-pop drives boom in Korean language lessons*, BBC News Global Education, 11 Jul 2018.

<sup>10</sup> Paldam M. (2003), *Economic Freedom And The Success Of The Asian Tigers: An Essay On Controversy*, European Journal of Political Economy, University of Aarhus, Denmark, Vol. 19 (2003) 453-477

such a strong and rapid growth is associated by the Harris-Todaro mechanism<sup>11</sup> with a rising unemployment in towns. South Korea instead defied this income-distribution model by maintaining a low Gini coefficient<sup>12</sup> throughout its development. A small fluctuation in the Gini index was registered in the years immediately after the highest growth, but after that period, it returned to its previous level: around 0.3.<sup>13</sup> A fairly surprising result that tells us how the country was able to keep a strong employment rate in the modern sector and therefore a somewhat equal income distribution.

Another similarity among Asian Tigers was the low incidence of public sector on the GDP and high savings rate with respect to Western rich countries.

The World Bank was not wrong in describing these economies as miracles. Back in 1955 South Korea was just as poor as African countries, its corruption rate was high, it had just come out of a destructive conflict and still threatened by its communist neighbors. Nobody could predict the growth that was about to happen.

However miraculous, the surprising economic development wasn't achieved over night, there was no single action or marvelous government policy that made all of it possible. It was the result of a long years of adjusting the structure of a country that had just finished a tiring war. It was a collective effort that took many trials and a financial crisis before revealing its positive aspects. So it is only fair to start by considering the real situation from which the country began its growth.

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<sup>11</sup> First described by Harris J.R. and Todaro M.P. in 1970, the Harris-Todaro model aimed at explaining the effects of migration from rural to urban sector in developing economies. It implied that the growth of the modern sector would decrease agricultural productivity due to the great number of job seekers moving to the towns where however the number of jobs available in the urban sector would not be enough to offer employment to all the people. The outcome of such situation would translate in the notion that rural-urban migration creates unemployment.

<sup>12</sup> The OECD defines the Gini coefficient as the measure of the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution.

The Gini index measures the area between the Lorenz curve and the hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. A Gini index of zero represents perfect equality and 100, perfect inequality.

<sup>13</sup> Paldam M. (2003), *Economic Freedom And The Success Of The Asian Tigers: An Essay On Controversy*, European Journal of Political Economy, University of Aarhus, Denmark, Vol. 19 (2003) 453-477

Hallyu is just one word that mainly represents the tip of the iceberg of a development that has its roots way deeper than what it seems.

#### *1.4.1 The Restructuring Of South Korea After The War*

In 1953, the heavy war that devastated the country and caused the division of the peninsula in North and South Korea was finally over. The southern newly-born nation however was barely able to stand. We are talking about a country that presented major problems to begin a process of industrialization. First, the country was left with a completely disorganized economic system; the conflict had destroyed all existing infrastructures created during the Japanese colonialism so any new governmental effort had to revolve around rebuilding new physical and human capital institutions. Moreover South Korea presented a very strong demographic pressure with a very low per capita income, even lower than those of Ethiopia and Yemen. Furthermore the war had negative consequences on the agricultural production so the country was left in a situation of a deep stagnation. During the years right after the end of the conflict, South Korea experienced a strong migration from countryside to city centers where the living conditions worsened, exacerbated by the already high population density (Kim K.S., 1991). As already mentioned, the country was poor in natural resources, the fertile land was very limited and aggravated by unfavorable climatic conditions, meaning that poverty was widespread with a significant share of the population living in a condition of absolute poverty.

In the years previous to the war, Korea had been a traditionally feudalistic society separated from the West, so after settling the hostilities the future held many possibilities for new beginning.

The overall picture was quite negative and the new Government needed to act. One of its first priorities was to introduce a population policy about voluntary birth control to slow down birth rates. As for the agricultural problems, already after World War II, a Land Reform was issued to help improve farmers' living conditions: particularly by establishing better facilities and mitigating the rift between the so called tenant-farmers and owner-farmers (the latter being more independent). Although nothing could really be done for the drought, floods and extreme temperatures to which crops were subjected, in the years to come South Korea still managed to moderately grow its

agricultural production (especially crops such as cereals and particularly rice) at least enough to help its national food production.<sup>14</sup>

Charles Tilly said that war makes states and for however harsh it can be, it is true. Any country directly involved in a war or just very close to the battlefield will experience to a certain extent the destructive, but also formative and redistributive effects.<sup>15</sup> Social and political dislocation usually follow any hard conflict and the existing regime must collapse in order for a new one to rise. Of course the aftermath of war brings first and foremost a great cost in human lives, however what follows is often a reallocation of resources and wealth that brings new life to the country. In time of peace, it is hardly possible for any leader to introduce radical economic changes, create social cohesion and opportunities for reform that are born once a war is over.

South Korea would probably not have been able to achieve its independence from the Japanese Imperialism in any other way than by fighting a war. The country came out of the conflict weak and poor but, nevertheless, it conquered a chance to develop on its own terms.

In 1953, no expert economist would have been able to predict what South Korea would have achieved in only half a century. Especially because the nation only grew very slowly until the 60s, but both the Korean Government and the people wanted to move forward.

Of course, it would not be right to say that South Korea was able to start its development completely on its own. Because of the still very present threat of Communism, it was thanks to the US that the Korean nation could obtain the funds to commence its improvements. In the period between 1953 and 1969, the US sent over 4.2 billion dollars in economic aids.<sup>16</sup>

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<sup>14</sup> Yoo T.H. (1995), *Development In The Republic Of Korea: Twenty-Five Years Of Hard Work*, UNESCO Principal Regional Office For Asia And The Pacific, Bangkok.

<sup>15</sup> Stubbs R. (1999), *War And Economic Development: Export-Oriented Industrialization in East and Southeast Asia*, Comparative Politcs, University of New York, Vol. 31, No. 3, pp.337-355.

<sup>16</sup> Stubbs R. (1999), *War And Economic Development: Export-Oriented Industrialization in East and Southeast Asia*, Comparative Politcs, University of New York, Vol. 31, No. 3, pp.337-355.

Some experts went as far as calling the new Korean economic system a “guided capitalism” to underline how much the American influence was shaping the new country.

#### *1.4.2 The Catch Up Period*

After the initial difficulties, South Korea had implemented pragmatic development strategy to better sustain the growth that it was trying to achieve. Many aspects of a country’s economy account for the sustainability of a strong growth rate, the World Bank gather all of them in what it calls “knowledge economy”.

A knowledge economy takes place when the sustained use of knowledge and creation are at the centre of the economic development. To better explain what a Knowledge Economy is Claessens (2007) breaks it down in a four pillar framework. First, for any country that wishes to rely on a Knowledge Economy, it is essential to undertake long-term investments in education. Counting on a more educated labor force gives the ability to upgrade and adapt skills to efficiently create and use knowledge. Moreover to foster new industries, an adequate incentive and institutional regime must be in place. Without the proper economic policies and institutions, no country can in fact efficiently distribute resources to stimulate innovation and incentivize creation<sup>17</sup>.

Because knowledge economies can only develop when new knowledge is acquired, processed and redistributed, Korea had to set information infrastructures to facilitate effective communication and transportation. Finally, the fourth pillar underlines how a proper innovation system of firms, research centers, universities and other organizations is essential in an economy that desires to promote knowledge and creativity.

Although the Korean Government never called its developing strategy a knowledge economy, South Korea’s growth is still manly hinged on the four pillars.

At the beginning of the 1960s, with a healthy foundation for economic growth in place, the nation turned its efforts toward the exporting industries to establish an export-oriented model. Such framework needed a few ingredients to function adequately. First, as explained by Stubbs (1999) export-oriented industrialization can either start

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<sup>17</sup> World Bank, Korean Development Institute (2006), *Korea as a Knowledge Economy: Evolutionary Progress and Lessons Learned*, Washington: World Bank.



after a strong import-substitution industrial development or by attracting foreign direct investments. Because such model necessitates a significant availability of capital. As we have already seen, South Korea was strongly helped by the US financial aids and so thanks to them, the country could shift to this new model.

Secondly, in order for production to continue efficiently, raw materials must reach the factories as smoothly as possible and finished products must be distributed to the markets. Luckily, South Korea had just reconstructed roads, railways and other transportation facilities that were destroyed in the war or simply built new ones as stated in the third pillar of knowledge economy. Finally, goods produced for export purposes need, of course, a market of destination. In the Korean case almost paradoxically, it was the Vietnam War that fomented a need from the US to consistently buy steel, equipment and chemical products to sustain their fights. From 1963 and 1966 South Korea's exports to Vietnam grew nearly by ten times, marking the proper coming of age of largest Korean industries.<sup>18</sup>

In these years, South Korea officially leaves the classification of Third World country as the latter do not possess a strong enough State to bear export-oriented strategies. In Third World countries in fact governments lack the proper control over the economy or are too politically weak to overcome the traditional social order.

Production of physical goods is very important for a country that wishes to pursue an export-oriented model, but to create the products in the first place, the government also needs to invest in skilled labor force. The Korean government had started by trying to reduce illiteracy among its people by increasing public spending in primary education. We can compare this period of Korean history to the Industrious Revolution<sup>19</sup> that took place in the West around the 18<sup>th</sup> century. In this period, in fact, South Korea also adapts many technologies obtained from foreign licensing to its domestic productive needs and we assist to a gradual shift in production of

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<sup>18</sup> Stubbs R. (1999), *War And Economic Development: Export-Oriented Industrialization in East and Southeast Asia*, Comparative Politics, University of New York, Vol. 31, No. 3, pp.337-355.

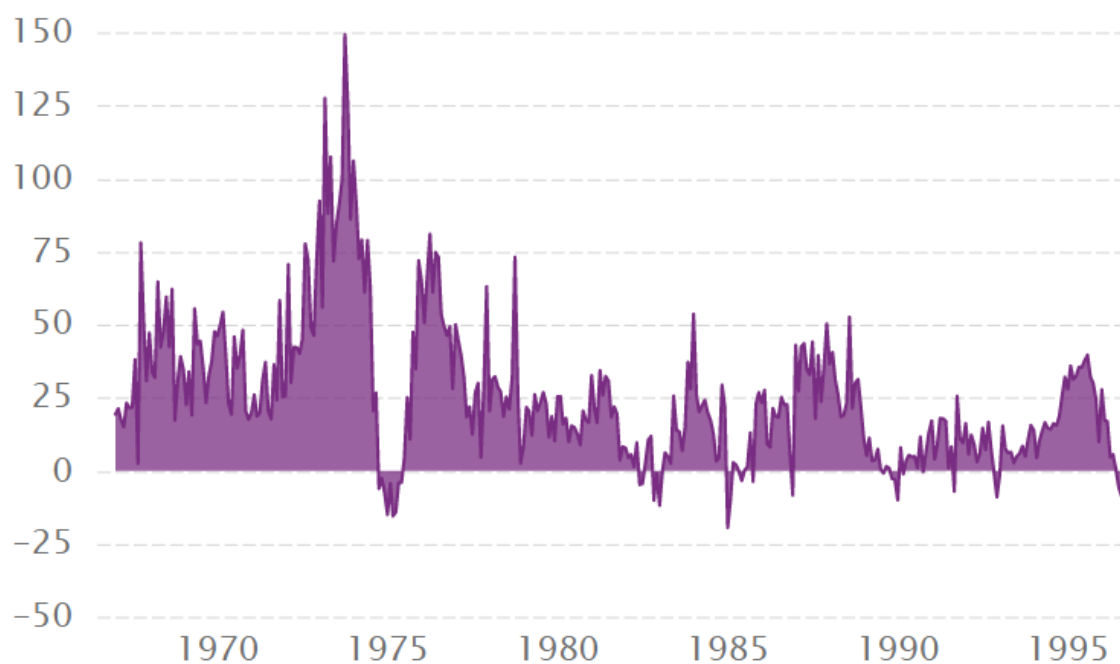
<sup>19</sup> The period that would later explain the advent of the Industrial Revolution in which many great social changes modified households spending behavior moving it away from necessities and closer to commodities. The new spending habits increased the demand for market-supplied products and therefore incentivized the creation of proper factories. Yet the production was not significant enough to make this period part of the Industrial Revolution.

sophisticated commodities. However, times were not mature enough to talk about a full industrialization of the country.

Agricultural production and light manufacturing sectors, for example the textile one, are still the predominant part of the Korean productive landscape.

In the 70s, the import-substitution and export-oriented strategies show their effects on the country's economic growth that we can see summarized in Figure 1.2 in the following page.

Figure 1.2 - South Korea Total Exports Growth 1960-2020



Source: CEIC Data (2020), *South Korea Total Exports Growth*.

As we can see from the graph there is a clear trend of growth that is however interrupted in certain periods due to international oil shocks, such as the negative peak around 1975. We must remember that in these years energetic needs for production could only be satisfied with the employment of fossil fuels and the Korean peninsula had to import them from other countries. Export-oriented strategies have a great capacity for generating foreign capital but they also expose domestic firms to international competition and price fluctuations. On the other hand, import

substitution initiatives serve to target specific domestic industries to promote their activities and further improve their core capabilities making them more competitive.

All these governmental policies had the effect of boosting the flourishing of heavy industries such as chemicals, shipbuilding and mechanics and develop more sophisticated technological skills.

Even though results were starting to show, in the 70s South Korea together with other East Asian countries were still lagging behind Latin American countries in terms of their share of world value-added, it was only in the 80s that they properly caught up and in the case of South Korea, completely overtook them.<sup>20</sup>

Throughout the 80s and for a good part of the 90s the growth trend continued and South Korea became proficient at adopting clever late-comers strategies. During this decade in fact governmental efforts were mainly focused on deregulating various productive sectors and liberalizing trade to nurture a more dynamic market environment. An open economy meant more foreign direct investments which in turn created a self-nourishing circle of expansion for the country. Moreover as Mathews (2006) explains, late-comers nations can exploit their late arrival by immediately accessing advanced technologies. They just need to request proper licensing from first-comers inventors and simply replicating their trajectories. They can climb the ladder of success without wasting time and resources in experimenting on their own.

Of course, this does not mean that they will necessarily be able to bypass competition right away, but nevertheless it is a perspective to be considered carefully. In the case of South Korea, we can see its implementation of such late-comers strategies in the establishment of Japan-like infrastructures and in its rapid uptake in the electronic sector. Akamatsu K. was the first to describe this situation with the flying geese model where the goose in the front of the formation bears the major friction against the wind, while the other geese can fly more comfortably behind it. The metaphor has since been used to express how Japan's industrialization offered a sort of guide for other Asian Tigers' economic development.<sup>21</sup>

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<sup>20</sup> Mathews J.A. (2006), *Catch-up strategies and the latecomer effect in industrial development*, *New Political Economy*, 11:3, 313-335.

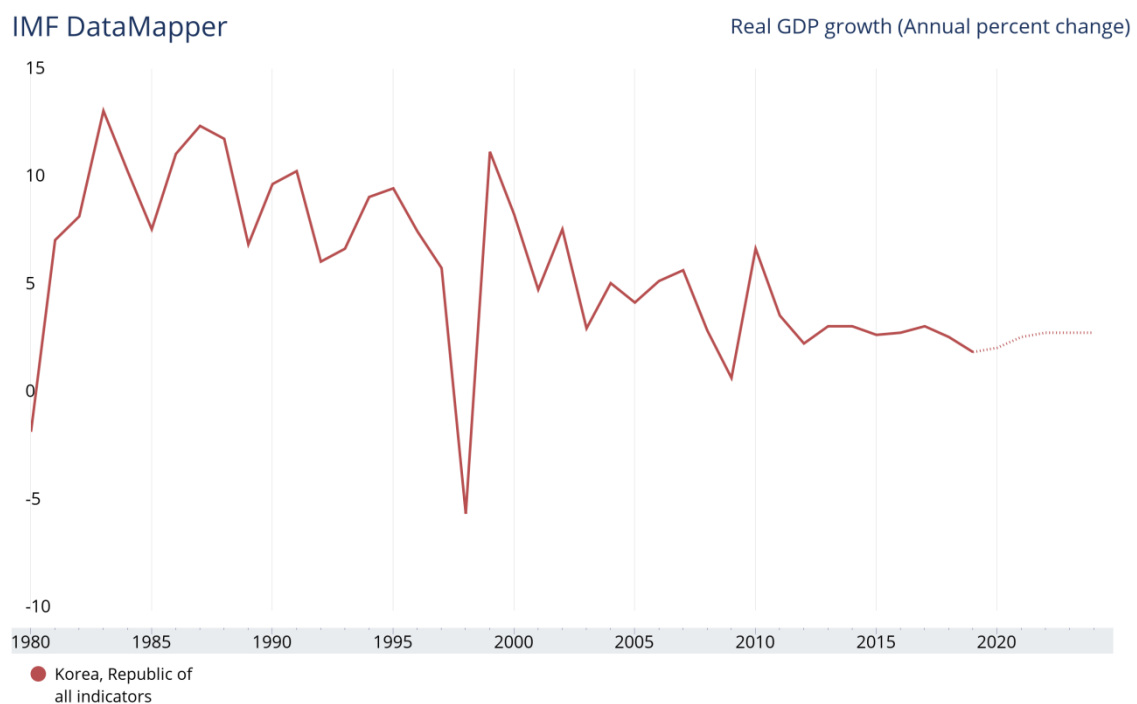
<sup>21</sup> Kasahara S. (2004), *The Flying Geese Paradigm: A Critical Study Of Its Application To East Asian Regional Development*, United Nations Conference On Trade And Development, Discussion Paper No 169

The 1990s kept bringing prosperity for South Korea as the reforms to promote higher education were finally yielding a more skilled labor force, research and development facilities sparked better results in many Korean industries and information infrastructures further expanded making knowledge more accessible.

The sustainability of the Korean economic growth was abruptly threatened when in 1997 the financial crisis showed the limitations of the political framework adopted by the country.

The financial disaster of the 97-98 was the first actual crisis experienced by South Korea since its newly found industrialization and of course it jarringly impacted the economic performance of the peninsula. We can clearly see the dip in GDP growth in 1997 from Figure 1.3.

Figure 1.3 – South Korea Real GDP Growth 1980-2020



©IMF, 2019, Source: World Economic Outlook (October 2019)

Source: IMF Datasets, *World Economic Outlook*, October 2019

The crisis started in July 1997 when the Thai Government declared bankruptcy and devaluing its currency after getting indebted to many neighboring countries and failing to pay. The resulting wave of depreciation hit all Asian currencies and caused several

issues to the economies of Asian countries, especially South Korea that had established a liberalized financial market. For Korea the crisis mainly generated the suffering of capital-intensive industries such as steel production and telecommunication that are particularly sensitive to external changes and depreciation.

Already during the years prior to the crisis, corporate productivity was declining (the drop in growth after 1995 is also showed in Figure 1.3) but the crisis gave it the biggest slump.

In the period between 1982 and 1992, the GDP increase was mostly a contribution of a fast growth of capital intensity which remained on average around 2.18%. After 1992 until the crisis, this percentage diminished and stayed around 1.55%.<sup>22</sup>

Even though South Korea was able to recover quickly, the crisis of the 1997 is still the most serious turmoil that the country had to bear in its latest history. Korean figures were still growing as the nation entered the 21<sup>st</sup> century, however it could not achieve the growth rates it displayed before the shock.

Following the crisis, South Korea's economy presented not only an apparent decline in long-run growth but also a higher unemployment rate and a low national capital accumulation.<sup>23</sup>

#### *1.4.3 - After The Crisis*

In academic terms, a currency crisis is defined as the nominal exchange rate of a currency depreciating strongly with respect to a threshold rate common to all countries. So to resolve the problems brought by the crisis, South Korea asked for the help of the International Monetary Fund (IMF), a situation not new to the latter which was used to issue aid programs and provide assistance to its member countries facing this type of difficulties. Guided by the IMF directives, the Korean Government focused on an expansionary fiscal and monetary policy with the goal of generating inflation. At first, the new strategy worked, with higher prices, firms were able to collect surplus of

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<sup>22</sup> Pyo H.K. (2007), "Productivity Growth and Structural Changes in the Korean Economy before and after the Financial Crisis", M. Karasulu and Y. Doo, IMF, University of Amsterdam, pp. 220-239.

<sup>23</sup> Kwark N.S., Rhee C., Yang Y.D. (2007), "Crisis, Adjustment and Long-run Economic Growth in Korea", M. Karasulu and Yang D.Y., IMF, University of Amsterdam, pp. 296-333.

money that they could invest again. From 2003 to 2006, real estate prices continued to go up and land value increased by 88% in these years.<sup>24</sup>

Eventually, however, inflation also started harming the country's exports as foreign customers kept witnessing the rise in prices of Korean products and were discouraged from purchasing them. In response to this trend, the Bank of Korea began an inflation targeting policy that did help the nation in recovering some of its export rate but could not go back to the exports growth previously experienced. In particular investment rates around 2005 were only two thirds of the pre-crisis level because foreign investors did not like the uncertainty that would still linger around Korean practices.

Kwark et al. (2007) also point out that the contradictory monetary policies undertaken by South Korea during the adjusting process after the crisis could be an explanation of why the country was not able to conquer back the growth rate that we saw before the 1997. In addition to the fiscal policies, after the crisis, South Korea also concentrated on an advanced knowledge-economic framework. Domestic innovation could flourish thanks to the increased public investments in knowledge sectors. The private sector, in particular, was further advantaged to make it more competitive in globalized markets.

Table 1.1 – South Korea Main Governmental Policies

Year	Political situation	Government's actions
1950	Restructuring	Population density control policies, land reforms, rebuilding transportation facilities, "guided capitalism".
1960	Standing up	Knowledge economy framework, primary education investments, import-substitution strategy and export-oriented model. (South Korea is no more a Third World country).
1970	Catch up	Financial incentives for the private sector, particularly for heavy industries.
1980-90	Catch up	Late-comers strategies, improving of the electronic sector, investments in higher education and research, building information infrastructures, opening the country to the world, liberalization.
2000	Adjusting	Advanced knowledge economy framework, expansionary fiscal and monetary policy, inflation targeting policy, investments in innovation in the private sector.

*Source:* Summary of the main governmental practices explained above.

<sup>24</sup> Park Y.C., Wyplosz C. (2008), "Inflation Targeting in Korea: Success, Good Luck or Bad Luck?", M. Karasulu and Yang D.Y., IMF, University of Amsterdam, pp. 39-62.

By going through Korean recent history, we can clearly understand that although miraculous, this country's economic growth was the result of a geostrategic factors (such as wars), the necessity to overcome unexpected problems and the overall dedication and motivation of a country that wanted to succeed.

The Korean Wave as it was defined is simply the culmination of the massive economic development that South Korea has undergone and shows us the results of such journey.

In the next chapters, we will better discern the industries and social elements that brought the Hallyu phenomenon to life.





## Chapter II: Korean Corporate Sector

In chapter I, we have explored the political and historical framework in which South Korea economic growth took place. However important, we cannot attribute the credit of the Korean success only to the Government's efforts, it is also thanks to a great group of good-willed entrepreneurs if the nation achieved such results.

In this chapter, therefore, we will look at the actual productive force of the Korean country and the peculiar type in which they are organized.

Korean largest firms are in fact the Western equivalent of conglomerates that can exercise a great amount of influence and power in the market. But just like any organization, Korean corporate governance structure had limitations that brought very serious negative consequences when the 1997 crisis occurred.

Then, we will go through the main heavy industries that gave the nation its starting boost and allowed the growth to take off. Particularly, this chapter will concentrate on the steel industry, the automobile industry and the electronics industry. For an empirical understanding of these sectors, we will revise KIA Motors' experience, especially when the financial crisis hit, Hyundai Motors and Samsung for a better outlook of the managerial practices involved.

### 2.1 Large Business Groups

South Korea's large firms are organized quite similarly to Japanese' corporate: that is to say in conglomerates called "Chaebols". The word itself directly translates to conglomerate, because Korean business groups are made of many legally independent subsidiaries that are managed by the same person or family like departments of the same firm (Kim S. et al, 2019).

Of course not all Korean firms can be described as Chaebols, however, the latter's presence is quite dominant in the Korean corporate sector, especially in the past. In 1998, right after the crisis, the sales of the largest conglomerates accounted for almost 50% of the GDP and around 50% of total exports.<sup>25</sup> Choi D. et al (2018) explains that according to the Korea Fair Trade Commission, in 2015, Chaebol firms comprised 61 business conglomerates and 1696 subsidiary companies.

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<sup>25</sup> Campbell T.L., Keys P.Y. (2001), *Corporate Governance In South Korea: The Chaebol Experience*, University of Delaware, Journal of Corporate Finance 8 (2002) pp. 373-391.

Chaebols are usually based on family relationships, or they were at least born in that way. They comprise many other enterprises that can extend their power regionally, nationally, or internationally, today they are mostly multinationals.

Taking a look about the managerial side of these conglomerates, it is important to immediately point out that Korean society is still strongly based on Confucian values, one of these being the importance of hard work. With the mentality that work brings prestige, Korean workers and entrepreneurs took the goal of enlarging their business at heart which is what probably led them at aiming at a large group of firms instead of just a big one.

As mentioned above, a particular characteristic of these business groups is that they are usually owned or even managed by a family being either the founder itself or the next generation of the founder's family. They also give employment to acquired members of the family such as fathers-in-law or sisters-in-law that tend to occupy key roles in the enterprise. Family relationships and family prestige is also considered a highly important value of life in Korean society. Nowadays, the situation has changed enough that it is not so common anymore to find such a family entrenchment in the managerial class of large enterprises.

Korean conglomerates structure is usually vertically integrated, they invest way more than non-chaebol firms and create a proper internal capital market. In fact, these big business groups went great lengths to diversification their production into many different fields. Of course, this is not an unusual practice for large firms as product differentiation reduces risks of low performance and increases profitability. This mechanism is very well known because even when a production line is not giving the desired returns, the company is still profiting off other lines. Furthermore the organization can rely on its established reputation to immediately improve awareness in the new market.

### *2.1.1 - Origins and Evolution of Chaebols*

It must be specified that Chaebols did not come from nowhere and thrived completely on their own in Korean society. Quite the opposite, it was the Government that helped the formation of these conglomerates taking Japanese business groups as reference. Even though South Korea has established a capitalist system, its market still

relied consistently on governmental helps, especially in the first decades right after the Korean war.

Chaebols started appearing in the 50s while the market structure was still tentative and they could exploit the capital-gaining period (Choi et al, 2007). The Government offered several financial incentives, for example low cost loans, to allow its entrepreneurial class to enlarge. Then, in the 70s, the State's efforts mainly concentrated on the industries that could more easily build a competitive advantage and better compete in international markets, such as heavy machinery and chemicals. Korean firms were also able to significantly expand their business thanks to the export-oriented policies of that time.

During the years, thanks to the fast-growing economy of the Korean peninsula, the upper directors and founders of the big Chaebols were able to gather an impressive amount of wealth. Competition of these years was very close to an oligopolistic situation. Only during the 80s and the 90s, private investments stopped concentrating on heavy industries and moved to communication and information technologies.

Another interesting aspect in Chaebols governance is that until 1992 foreign ownership in Korean firms was not permitted, making it clear that although willing to open itself to the world, the Korean country still had its reserves.

Korean private sector did end up bringing the desired results in terms of country's economic growth. Not only their production boosted the GDP, but their managerial practices allowed them to achieve economies of scale and scope and therefore making them more competitive.

These giants conglomerates also invested great amounts in R&D thanks to which the Korean nation could become an innovator and officially get out of his catch up period.

### *2.1.2 - The Problematic Side*

Despite being very fruitful, this type of organizations also had downsides and shortcomings that were mainly revealed when the crisis made the economic situation less favorable.

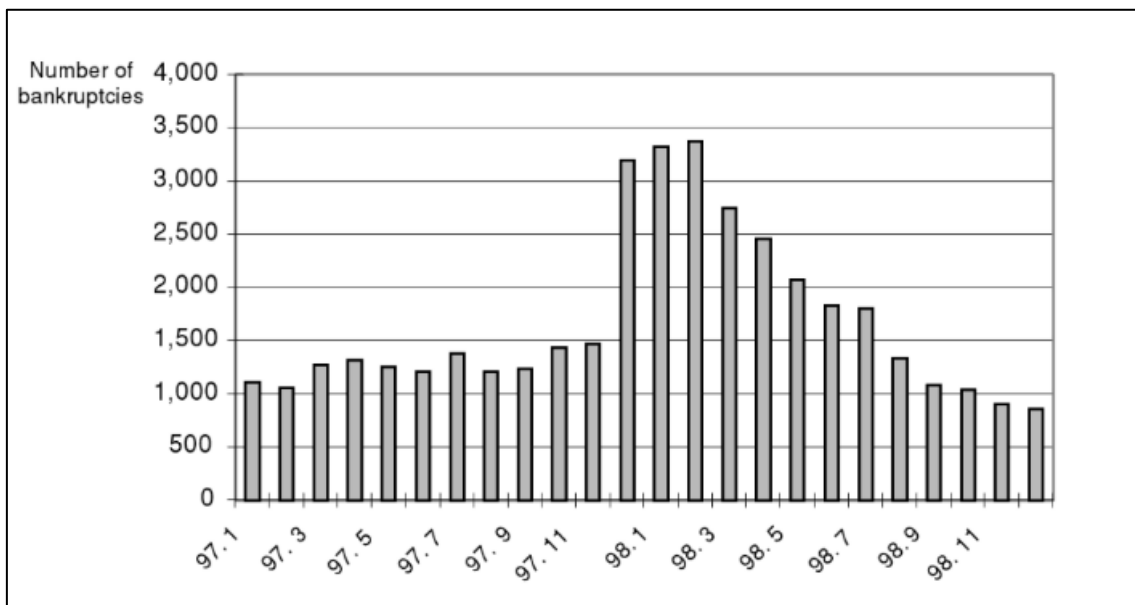
The main issue of Chaebols was that they concentrate power and resources in the hands of very few families that eventually led to corruption accusations as business leaders were pressuring the Government into making laws specifically benefitting their

interests. Moreover, a strictly family-controlled enterprise leaves very little representation for minority shareholders whose interests and rights risk being overtaken by majority shareholders.

Because of their great influence, the thirty largest Chaebols are closely monitored by the authority for making sure their behavior do not hinder competition in unethical or illegal ways. In 1980 the Korean Government issued the Monopoly Regulation and Fair Trade Act with the specific purpose of stopping any anticompetitive action.

Some authors, among which Claessens (2007), believe that the peculiar structure of Korean corporate sector has worsened the damage caused by the financial crisis of 1997. Chaebols' structure, in fact, made them particularly sensitive to external events. Figure 2.1 shows the devastating effects of the financial crisis of 1997 on Korean enterprises.

Figure 2.1 – Korean Firms Going Bankrupt After 1997 Crisis.



Source: Chang S.J. (2003).

Vertically integrated organizations are known for their core rigidity and only function efficiently in stable environments where the rate of change is low and not radical. When fundamental disruptions take place, their lack of flexibility makes them very slow in adapting and most of the time it damages their operations.

During the 80s, Korean private sector's production was blossoming thanks to low oil prices, low interest rates and undervalued currency.<sup>26</sup> In the 90s, already, their profitability was weakening and the Government responded by liberalizing foreign capital exports even more. Such measure did not bring any more productivity for the Korean country, quite the opposite as Chaebols were now facing the intense competition of foreign companies and started investing in overseas factories.

Looking at the whole picture, Chaebols played a very important role in South Korea's economic development but it is undeniable that they are also very domineering corporate structures that condition the Korean private sector both in positive and negative ways.

Korean business groups were subject to several financial vulnerabilities that led to such an impressive number of failures as many firms were forced to declare bankruptcy. Many of these issues were in part caused by the Government's loose control practices.<sup>27</sup> Korean banking system operated with such a passive nature that operations of risk management and credit analysis were too limited to be efficient. Moreover the lack of transparency in business practices and the inadequate financial supervision created an unequal distribution of capital.

Most of these enterprises had a high financial leverage meaning that the organizations were functioning on borrowed funds and not on proper equity capital. Because many of these were mainly operating in capital-intensive industries, they were borrowing great amounts of money and growing their debts significantly. Therefore when the crisis exploded, these businesses were not able to repay their creditors.<sup>28</sup>

Additionally, South Korean companies were using a significant proportion of foreign investments that they borrowed in foreign currencies, which meant exposing themselves even further to inflation shocks.

We can see the disproportionate financial leverage of Korean firms with respect to American and OECD's countries' firms in Figure 2.2.

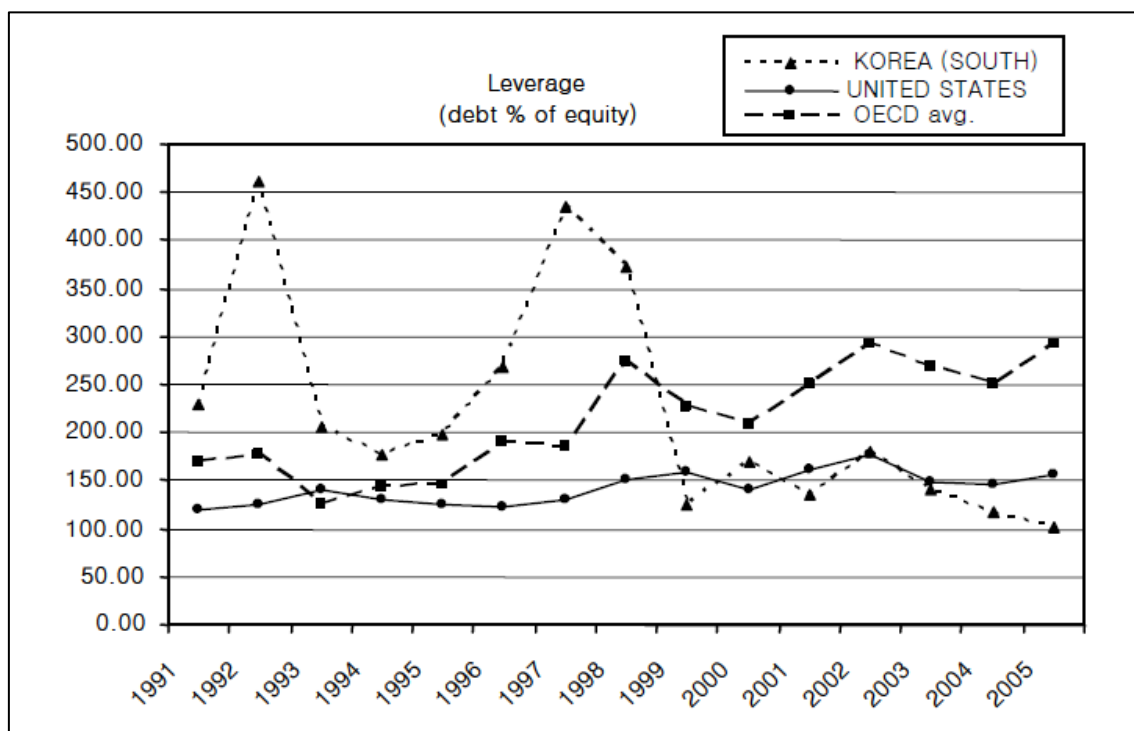
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<sup>26</sup> Chang S.J. (2003), *Financial Crisis And Transformation Of Korean Business Sector: The Rise And Fall Of Chaebols*, Cambridge University Press, New York, US.

<sup>27</sup> Koo J., Kiser S.L. (2001), *Recovery From A Financial Crisis: The Case Of South Korea*, Federal Reserve Bank of Dallas, Texas, US.

<sup>28</sup> Claessens S., Kang D. (2007), "Corporate Sector Restructuring in Korea: Status and Challenges", M. Karasulu and Yang D.Y., IMF, University of Amsterdam, pp. 103-148.

Figure 2.2 – Financial Leverage Comparison Before And After 1997.



Source: Claessens et al. (2007).

But how comes a conglomerate so big did not have enough money to extinguish its debts? As we mentioned before, Chaebols invested any money surplus they were making.

One of the main goals of Korean conglomerates was to expand their activities in many diverse industries to reduce transaction costs as much as possible and to better achieve economies of scope. Such strategy led to over-investing and over-diversification that could only yield profits in the long-run. Altogether their actions created risky financial structures that made them vulnerable in the face of a potential crisis. Therefore, all business groups that had undertaken these investment plans found themselves completely disarmed when the financial bubble burst.

### 2.1.3 – A New Management Era

After the crisis, several changes have been made to Chaebols governance structure. First of all, the government laid down specific guidelines aimed at forcibly reduce financial leverage. Korean large firms had therefore to resolve to more

conservative liquidity management to decrease their share of short-term debt. We can see the important drop in financial leverage at the beginning of 2000s in Figure 2.2 in the previous page.

So to take its corporate sector out of the crisis, the Government had to implement a good financial restructuring of the banking system and a sound recapitalization for the corporations. A stricter regulatory framework was also created to enforce transparency in investing practices and transactions, for instance the issuance of a mandatory combined financial statement to better keep track of all the affiliated companies in the business group. Korean financial accounting standards have been finally aligned with International Accounting Standards (IAS).

Another important step was to fight over-investing by having Chaebols direct their investments to consolidate their existing operations and core competencies instead of enlarging their activities.

Shareholder-oriented management practices were also adopted in Chaebols to ameliorate shareholders activism with a better involvement of minority shareholders. The improved transparency resulted in a better performance of Korean stocks in capital markets as the firms were seen as more credible by foreign investors.<sup>29</sup>

Because of their now globalized nature, Korean firms have felt the pressure in recent years to engage in Corporate Social Responsibility (CSR). This pressure mainly comes from stakeholders that value the contribution that big private organizations can give to their society. Nowadays experts have recognized the capacity of CSR practices to improve the organization's image and reputation.

Although not perfect, Chaebols still greatly contributed to South Korea's massive economic growth, making their country the 5<sup>th</sup> largest exporter in the world with the 11<sup>th</sup> largest GDP in 2017<sup>30</sup>.

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<sup>29</sup> Choi D., Chung C.Y., Young J. (2018), *An Economic Analysis Of Corporate Social Responsibility In Korea*, College of Business Administration, Seoul, Sustainability 2019, 11, 2676; doi: 10.3390/su11092676.

<sup>30</sup> Andolfo I. (2018), *Chaebols, The Engine Of The Korean Economy: A Case Study Of The Samsung Group*, Department of Business and Management, LUISS.

## **2.2 - Central Industries For Korean Development**

Since South Korean economic growth was mainly based on certain very successful industries, this section will be dedicated to a more insightful analysis of the most important Korean industries and relative case studies that will support the argument with empirical evidence, such as the steel industry, automotive and electronics one.

### *2.2.1 - Steel Industry and the case of KIA Motors*

The steel industry in South Korea was among the first to grow after the Korean war because the material was needed to begin reconstructions of houses and facilities destroyed during the conflict. We have also seen how the US started to invest into Korean steel production to have access to any necessary asset and munitions to fight the Vietnam war.

At first the production was mainly revolving around ingots and bars, but as the economic growth in the country continued, the domestic demand for finished products increased and the industry developed further.

In half a century South Korea went from a poor country that lacked technology, expertise and resources to the world's sixth largest producer of steel in 2016.<sup>31</sup>

A curious case when looking at the steel industry is the progression of KIA Motors that subsequently became one of the largest Chaebols. KIA Motors was initially born as a producer of steel and bicycle components named Kyung Sung Precision and was able to exploit governmental and American financial incentives to grow its production.

As explained before, many Korean entrepreneurs had the ultimate goal to expand their production into different sectors. For this reason, in the 70s the firm started manufacturing automobiles. In true late-comer fashion, KIA Motors relied on licensing agreements with Japanese Mazda to enter the car industry.

At first, the new car maker only created small-sized commercial vehicles, but later, in the second half of the 1980s, it expanded to passenger cars. During the 90s, the group

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<sup>31</sup> Chung C.H., Sa D.C. (2017), *The Korean Steel Industry In Retrospect: A Lesson For Developing Countries*, Asian Steel Watch, POSCO Research Institute, Vol. 04, pp. 80-90.



was going so well that it became South Korea second most important car maker, right after Hyundai, overtaking Daewoo.<sup>32</sup>

Falling exactly into the over-investment trap that we introduced before, KIA Motors' management announced in the early 90s their plan to enlarge the production further and open new factories oversea. By the late 90s, the KIA Chaebol comprised many differentiated subsidiaries of any kind: its still-operating steel firm (now called KIA Special Steel), a constructing company and even a trading company. Therefore, quite unsurprisingly, when the financial crisis hit, the now heavily indebted enterprise cracked. In summer 1997, KIA Motors went bankrupt.

Although the proper bankruptcy only occurred with the crisis, signals that the group was experiencing financial problems were already present years before the collapse. Many of the senior management's new investments were not profitable and the firm was recording significant losses.<sup>33</sup>

After the company was declared insolvent, the Government started making pressure on the management of KIA Motors to accept a takeover offer from another business group as even Samsung placed a bid. Even though the labor unions fought to obtain allowances and let KIA Motors resuscitate its business, eventually the group was acquired by Hyundai in 1998.

It is interesting to look at KIA Motors's case for two reasons: first it was not managed by its founder like customary for Korean groups; second it was extremely hurt by the crisis of 1997 exactly for its management's greed. Nonetheless, nowadays, KIA Motors still exists and it's still the second largest Korean car brand. Therefore still a strong source of soft power for its country.

### *2.2.2 - Automobile Industry and the case of Hyundai*

Since the previous paragraph explained how KIA Motors was saved by Hyundai, it is only fair that we look at the management practices that the latter has implemented to remain profitable even in an unfavorable financial period such as the 1997 crisis. In order to do this, however, we must understand a little bit more of the

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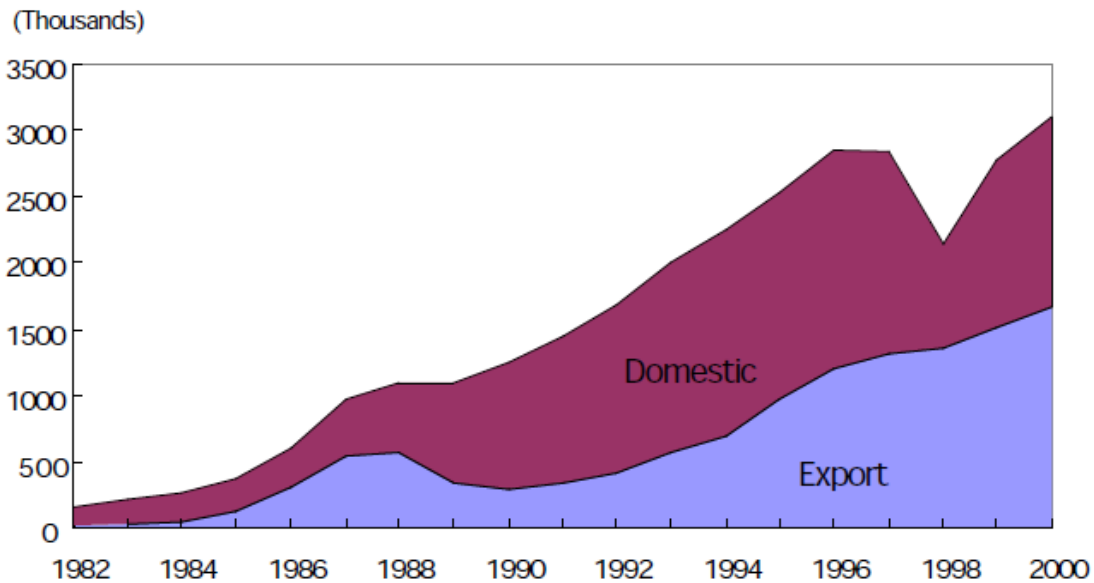
<sup>32</sup> Lee B.H., Cho S.J. (2001), *Merger And Reconfiguring Of Hyundai-Kia*, Chung-Ang University, Seoul.

<sup>33</sup> Lee B.H., Cho S.J. (2001), *Merger And Reconfiguring Of Hyundai-Kia*, Chung-Ang University, Seoul.

context in which Hyundai main activities were, that is to say: the automobile industry in South Korea.

The Korean automobile industry continued to grow consistently from the early 1980s to the late 90s, as we can see from Figure 2.3.

Figure 2.3 - Automobile Sales Growth In South Korea



Source: Lee B.H. et al (2001).

From the graph we can clearly see the sharp downturn occurred in 1997 but what we cannot see from the figure is how Hyundai was the only Korean car maker that maintained a healthy financial performance during the crisis.

Hyundai started producing vehicles in 1967 and following the liberalization of economy during the 80s, it began selling internationally growing its sales of almost 30 times between the 1980s and the 2000s.<sup>34</sup>

During its catch up period, South Korea has looked up at many Japan-like practices of development to improve the country and the private sector is no exception. If Japanese car sector has been incredibly boosted by Toyota's unique production system, Hyundai was one the first organizations to apply such system to its own processes.

<sup>34</sup> Lee B.H., Jo H.J. (2007), *The Mutation Of The Toyota Production System: Adapting The TPS At Hyundai Motor Company*, International Journal of Production Research, Vol. 45, No. 16, 15 August 2007, pp. 3665–3679.

Toyota's production system or "Toyotism" was an evolution of the scientific management developed by Taylor for the creation of Ford cars. It was based on the so called just-in-time model where every step of the production process was aimed at eliminating waste. So no excess of raw materials and no excess of finished products to keep in storage spaces that could depreciate and increase the firm's expenses. This also meant that Toyota has to encompass its own supply chain as not to encounter shortages of production inputs. It revolved around full labor utilization with no unnecessary movements for employees as not to waste time during the work day.

Of course, Hyundai could not apply the pure Toyota model because the market it was facing was different as South Korea was still a developing country. What Hyundai did was adopting some bits and pieces of the Toyota production system, especially during the years of major enlargement, to assemble new plants or when restructuring a production line. In this way, the Korean manufacturer cut down costs to the bone and avoided wasting money as much as possible for operations that are usually very expensive for any firm.

Right at the beginning of its expansion, in the 80s, Hyundai made heavy investments in automated equipment to widen its capacity and applied just-in-time elements to achieve a full mass production strategy.

In the 90s, the company went as far as hiring retired Toyota's engineers to build a plant that looked almost exactly like Toyota's one.<sup>35</sup> The enterprise was also attentive in establishing a flexible automation scheme with investments in computerized systems to adjust volumes of output more easily and reduce set-up times for new car models.

When the financial crisis arrived, Hyundai's performance was harmed and the company went through a strong downsizing. However it never went close to an insolvency situation thanks to its highly efficient production system, its flexibility and its cost-cutting management practices.

After the acquisition of KIA Motors, Hyundai officially changed its name in Hyundai-Kia Group. Because of the difficult situation that the crisis had left in South Korea, the new

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<sup>35</sup> Lee B.H., Jo H.J. (2007), *The Mutation Of The Toyota Production System: Adapting The TPS At Hyundai Motor Company*, International Journal of Production Research, Vol. 45, No. 16, 15 August 2007, pp. 3665–3679.

conglomerate had to undertake a moderate restructuring of its top management and decided to focus on a push strategy for the years to come. Today, Hyundai is still the most sold Korean car brand and Kia follows right after.

### *2.2.3 - Electronic industry and the case of Samsung*

The electronic industry developed a little bit late in South Korea with respect to other industries. Only in the beginning of the 80s, the Government had again a great part in the growth of this sector as specific investments were made to enhance technological capabilities of the private sector and further promote innovation.

From that point on, many Korean firms started investing in R&D to expand in the electronics industry. However there was one main problem that any Korean firm had to face in this industry: the already strong Japanese competition. For such reason even in this sector, South Korea had some catch up to do before being ready to compete.

Nowadays the Korean country has become one of the most advanced nations in terms of technology and electronics. From the 2000s, this sector has contributed to half of the growth in manufacturing as Korean firms are always attentive to invest in latest technologies<sup>36</sup>.

The Samsung is the largest Chaebol on the market since the 90s and today comprises around 80 smaller firms, one of its latest acquisition being a medical equipment company.<sup>37</sup> From 2017 until today, Samsung has been ranked as the 6<sup>th</sup> best global brand by Interbrand, a leading company in brand consultancy.

Back in 1938, when it was founded, Samsung was not a conglomerate, but just a small producer of noodles and dried fish with less than forty employees. The firm was doing well in its first years but it was only after the war that its real growth began. Samsung started acquiring the more diversified firms, for instance a couple of insurance companies. Because the founder greatly believed in industrialization, many investments were made to allow Samsung to become leader in many of the sectors it was operating in.

During the late 70s, Samsung established a firm called Samsung Electronics that was dedicated to black and white televisions for the domestic market. Seen the success this

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<sup>36</sup> International Monetary Fund (2019), *Republic Of Korea*, IMF Country Report, No. 19/132.

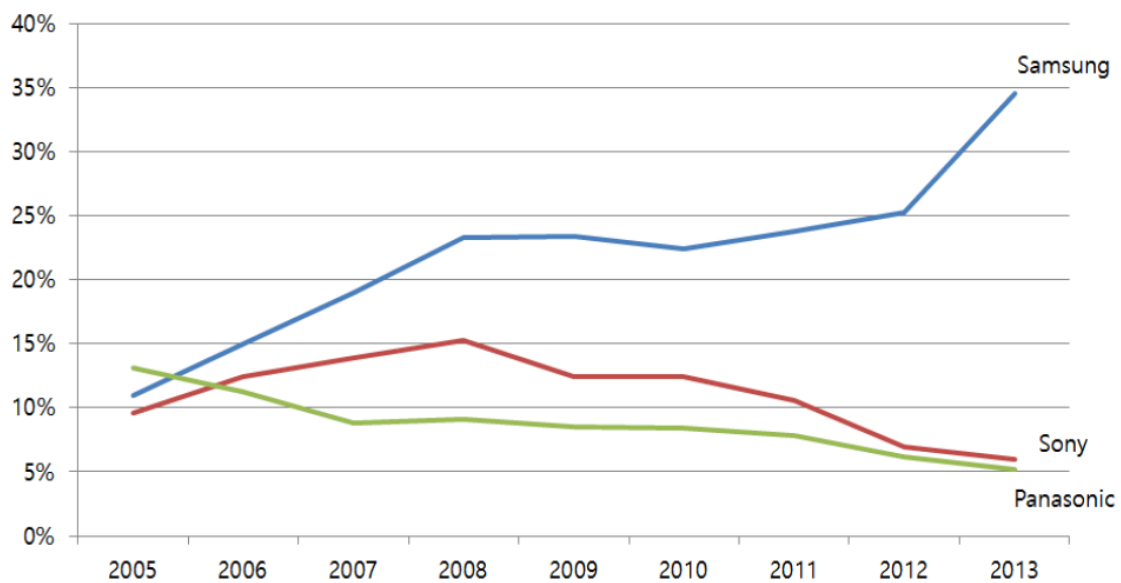
<sup>37</sup> Samsung Electronics (2020), *Company History 2005-Present*.

firm was achieving, the production was expanded to establish a mass production and the company started selling many different electronic commodities such as ovens, air conditioners and personal computers. Mobile phones production only began in 1992. Thanks to heavy investments in innovation and internationalization, Samsung opened subsidiaries in Germany, Portugal and, years later, in England, America and Japan. Because of the stable profitability this sector was offering, by the beginning of the 90s the Samsung group chose electronic appliances, telecommunication and semiconductors as its core business and concentrated on developing it.<sup>38</sup>

Just like Hyundai, Samsung also experienced a moment of difficulty when the crisis hit the Korean market. Most of the damage was done to its Samsung Motor now controlled by Renault. In just a few years, the group was able to recover its financial health.

We can see the growth in Samsung’s LCD Televisions market share through the years in Figure 2.4.

Figure 2.4 - Samsung’s LCD TVs Market Share Growth 2005-2013.



Source: Sang C.J. (2014).

<sup>38</sup> Andolfo I. (2018), *Chaebols, The Engine Of The Korean Economy: A Case Study Of The Samsung Group*, Department of Business and Management, LUISS.

Perhaps Samsung most famous products are its smartphones as in 2012 it became the world's bigger mobile phone producer, overtaking its Finnish competitor Nokia that had been market leader since 1998, and it remained the first ever since.<sup>39</sup> We could even say that Samsung gives one of the largest contribution to the Korean Wave as it significantly helps to strengthen the association of South Korea with high-tech products in a variety of categories.

Samsung's great performance today is the result of a strong dedication of managers and employees alike focused on obtaining the utmost efficiency. Back in the late 80s, the top management realized that the quality of their final product was compromised by several small mistakes during the production and assembly. The main issues identified were all connected with inefficiencies due to inadequate communication among departments and poor division of labor.

To solve all of these problems, the chairman Lee K.H. launched during a conference in Frankfurt, its "new management plan": a series of open human resource management practices aimed at promoting autonomy of employees and stimulate their creativity.

The more transparent management also included the "people-first" philosophy where the corporate actions are meant to build human capital. Knowledge, skills and capabilities of employees are enhanced through training and education programs with the end purpose of building relationships among coworkers and improve cooperation.

The creation of a better organizational culture was another step toward making Samsung a successful global player.

Although human resources are fundamental when trying to make a company great, eventually customers will only buy a product if the quality is good. Therefore Lee also applied a quality-based management strategy where quality was obtained by advanced technology. In this period, Samsung made several investments to improve its R&D department work and also increased its marketing efforts as understanding consumers' tastes was now fundamental in international competition. The result of this strategy was the design of good-looking, high performing products, such as the LCD Televisions, that made Samsung an exceptionally profitable company.

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<sup>39</sup> Andolfo I. (2018), *Chaebols, The Engine Of The Korean Economy: A Case Study Of The Samsung Group*, Department of Business and Management, LUISS.

So Samsung has adopted Japanese style management practices before the 80s and then started adding American managerial elements, until the firm established a true hybrid structure with production operations still directed in the Japanese way and new departments, such as the HR and marketing, managed like an American company.<sup>40</sup>

It would be biased, however, not to mention some negative occurrences in Samsung's success. In previous paragraph, it was stated how sometimes the great power concentrated in the hands of Chaebols' owners led to corruption accusations. This was exactly the case of Samsung's future Chief Executive Officer.

Lee J.Y., son of Lee K.H., was expected to become his father's successor and lead Samsung's company right as CEO but, in 2014, he was charged with embezzlement and bribery, especially linked with President Park G.H. (Andolfo I., 2018). One of such charges being the payment of 36 Million dollar to charitable foundations all controlled by a President's close friend in exchange for the approval over some legal mergers.

In 2017, Lee J.Y. was sentenced to five years of jail but he was released less than six months after, arising many arguments around the shady power of big Chaebols. Many people in fact were not satisfied with the untouchable position achieved by these big conglomerates. Since then, Samsung made an official statement saying how they deeply regret the episode and will avoid such mistakes in the future<sup>41</sup>.

Today, Samsung is one of the pillars of South Korean economy and greatly contributes to make its country recognized for its technological excellence, but growing competition of Chinese smartphones from Huawei have become a serious threat to its profitability lately.

There are definitely other industries and other brands that helped South Korea in growing so much so fast. This chapter has focused on the main heavy industries that are at the base of any stable economic development as they help building all the necessary infrastructures any country needs for further growth.

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<sup>40</sup> Sang C.J. (2014), *The Analysis of Strategic Management of Samsung Electronics Company through the Generic Value Chain Model*, Incheon National University, International Journal of Software Engineering and Its Applications Vol. 8, No. 12 (2014), pp. 133-142.

<sup>41</sup> Choe S.H. (2019), *Samsung's Leader at Risk of More Prison Time After Court Rules Against Him*, The New York Times, 29<sup>th</sup> Aug 2019.





## Chapter III: Service Industries

The production of physical products is undeniably essential for the growth of any economy, but today a nation that wants to pride itself on being a First World country must also have a strong service economy.

This chapter will focus on service industries and creative ones to tell us how exactly their influence all converges on the Hallyu phenomenon. In particular we will see how Korean entertainment products have been so favorably received by domestic and international public fomenting a proper Korean show business.

Then, this chapter will describe the main policies adopted to improve the tourism industry.

Last but not least, we will look into an industry that sometimes instigate controversy: the beauty industry and plastic surgery procedures.

Creative industries and services are the true heart of the Korean Wave because they are more inevitably intertwined with culture than electronic commodities.

### 3.1 Service Economy In South Korea

The main shift in labor landscape that brought the rise of a proper Service Economy in South Korea happened around 1985 when the liberalization of the economic system allowed for new forms of employment and activities.

A Service Economy takes place when there is the general trend in a society to engage in service-oriented economic activities and the Tertiary sector becomes a great source of employment.

South Korean service sector was in fact quite inefficient before the 80s. For example the telecommunication system was so underdeveloped that in 1975 only 3% of the population possessed a telephone<sup>42</sup>. But because of the rapid growth in demand, the Government started a process of deregulation for the ICT sector (Information and Communication Technology) and privatization of telecommunication operators that were previously Government-owned. Any further development in the ICT industry was left to market competition among private firms. In 1981, however, the Government

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<sup>42</sup> World Bank, Korean Development Institute (2006), *Korea as a Knowledge Economy: Evolutionary Progress and Lessons Learned*, Washington: World Bank.

established the Korea Telecommunication Authority to monitor the market in such sector.

The sudden possibilities opened with the liberalization of many services in the Korean society resulted in great opportunities for existing Chaebols that could enter new markets and profit from them.

Shin et al. (2019) explain the rapid development of the Korean service sector like a case of Translation from the Western model:

«Translation refers to a situation wherein a diffusing practice or element is modified to fit existing local arrangements, often through active localization efforts by institutional entrepreneurs». (Shin S.I., Kim L., 2019, pp. 7)

This theory suggests that service sector in South Korea did not develop in the same way that it did in Western countries because it was adapted to the local landscape dominated by business conglomerates. In fact, already-existing big Chaebols immediately appropriated the great chances of development from the new industries leaving out small entrepreneurs.

Nevertheless, Korean society at large benefited from the growth of the Tertiary sector as the latter is a fundamental part of a Welfare country. Kim S. W. (2009) explains that a Welfare State is commonly established from a social security system which has the main purpose of reducing unemployment and poverty by providing a minimum standard of living. In South Korea such social security system was established in the late 90s to mitigate the effects of the financial crisis. Although it resembled Keynes-Beveridge model<sup>43</sup>, it had some peculiarities of its own<sup>44</sup> due to the late-comer position of South Korea. First we need to remember that Korean main source of employment was changing rapidly as more and more people were starting to work in the service sector. Between 1990 and 2007 the industrial sector's incidence on the GDP decreased from 34.5% to 25.9% while the service sector increased from 46.7% to 66.7% in the same period. Furthermore, after the crisis of 1997, the unemployment rate grew sharply and increased of almost four times (from 2% to 7%).<sup>44</sup> To solve these social issues, the Government introduced a series of policies aimed at making labor market

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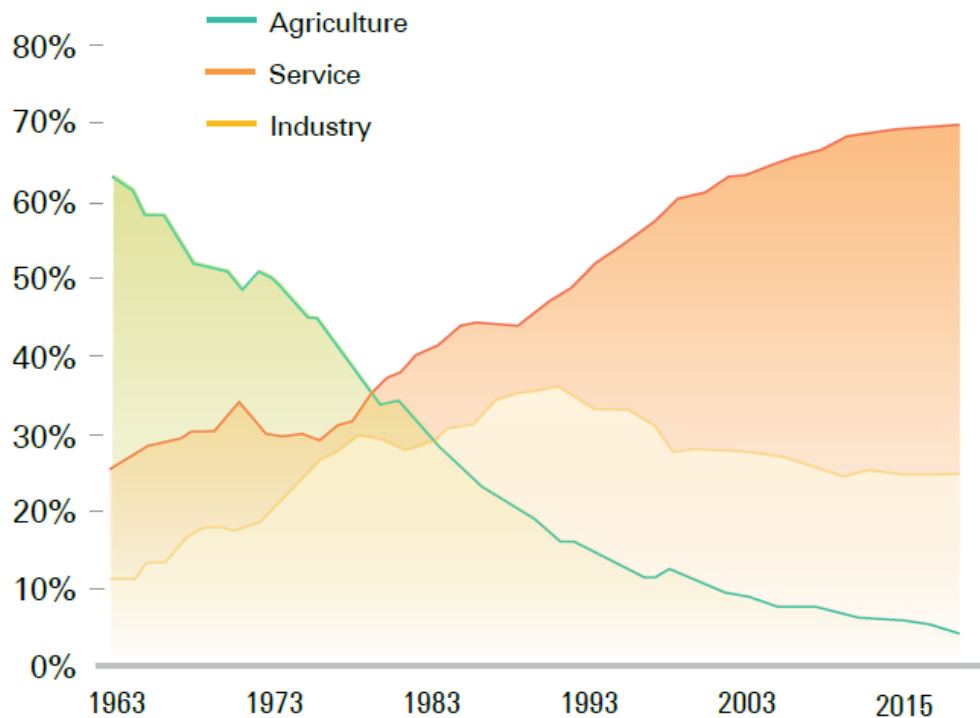
<sup>43</sup> The Welfare State model established in Western countries mainly after World War II.

<sup>44</sup> Kim S.W. (2009), *Social Changes and Welfare Reform in South Korea: In the Context of the Late-coming Welfare State*, International Journal Of Japanese Sociology, No. 18, doi: 10.1111/j.1475-6781.2009.01116.x

more flexible. In these years in fact, many new jobs in the form of part-time and temporary contracts were created, a change that Kim S.W. (2009) describes as typical of post-industrialization.

All the effort geared toward the expansion of the Tertiary sector and the adjustments after the crisis eventually worked. In 2019 70.48% of the Korean labor force was employed in service activities<sup>45</sup> and the unemployment rate went back to its average 3%<sup>46</sup>. We can see the change in employment by sector in South Korea from the 60s until 2015 in Figure 3.1.

Figure 3.1 - Change In Employment By Economic Sector in South Korea.



Source: Chung C.H., Sa D.C. (2017).

For what concerns this research, the service industries that most interest us are the entertainment, tourism and the huge growth in plastic surgery interventions of recent years.

<sup>45</sup> Plecher H. (2020), *South Korea: Distribution of Employment by Economic Sector from 2009 to 2019*, Statista GmbH, 29<sup>th</sup> Jan 2020.

<sup>46</sup> International Monetary Fund (2019), *Republic Of Korea*, IMF Country Report, No. 19/132.

### 3.2 The Entertainment Industry

A huge contribution to the expansion of the Korean Wave was given by the significant flourishing of cultural industries such as the entertainment sector. Markusen et al. (2008) defines a cultural industry as one that produces cultural goods and services, through which a social order is communicated, reproduced, experienced and explored. Examples of such industries are television, music, cinema, books and newspapers. Therefore Korean music, films and television programs all help in spreading Korean ways of thinking and social aspects in other societies.

In this paragraph we focus on the entertainment industry, and even more specifically, on the music production which was born in South Korea only three decades ago.

Because the Korean Government recognized the strategic power of cultural products, specific sub-sectors of entertainment were incentivized for their capability of being tailored to export purposes. For what concerns the music production, the prioritized genre was a commercial type of music, very close to Western pop called simply “K-pop” or “Idol Pop”. The new music style does not share much with traditional Korean music as it resembles more a product for export than anything else. In fact, the songs of this type are usually easy to listen to, peppered with English words and the videos are rich in visual effects and catchy dance moves. All of these elements are clearly studied to create a pleasing performance even to a public that does not speak Korean. K-pop products are very easy to understand no matter if the audience is unfamiliar with Korean culture. So was this new music genre actually successful? The answer must be a loud and clear yes because in 2012, when K-pop started spreading in countries such as Italy, this industry contributed 2 Billion dollar annually to the economy of South Korea<sup>47</sup>.

Before going deeper into the industrial organization that allowed this type of industry to gain so much in money and influence, it is important to point out why the so called K-pop genre is different from traditional music but still a good example of cultural product. We need to remember in fact that this part of Hallyu was born in the 90s when the country had opened up to the international community and was therefore

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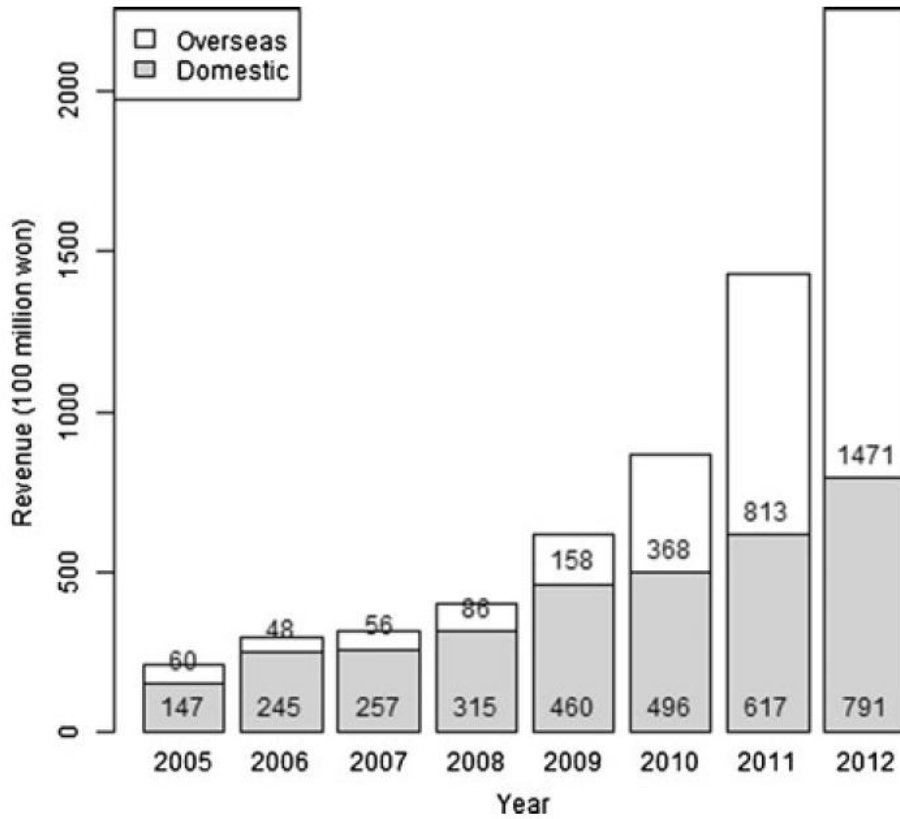
<sup>47</sup> Shin S.I., Kim L. (2013), *Organizing K-Pop: Emergence and Market Making of Large Korean Entertainment Houses, 1980–2010*, East Asia, University of Washington, Springer Science and Business Media Dordrecht.

somewhat influenced by it. The world was getting closer and closer to an era of globalization where even Korean culture would take in international elements. Ryoo W. (2009) further explains that we cannot just define this cultural hybridization with the strong role of American culture (or Americanization as he puts it in his article) because there is still something unique about Korean music production of these years. The Hallyu is a phenomenon of its own that was probably greatly favored by the highly interconnected time in which it has grown but not less special nonetheless.

Since we are now familiar with the concept of Chaebols and how they dominate the Korean market, it is not entirely surprising to find out that even the Korean music landscape is controlled by big Entertainment Houses. These firms not only play an important role as producers of K-pop music but they even shape the market for such music. We could define Entertainment Houses strategies as vertically integrated studio systems. In contrast with Western record companies where the artist usually has freedom over their own artistic style, Korea Entertainment Houses follow a highly organized process to turn their artists in famous celebrities. K-pop is sometimes called “Idol Pop” because singers and dancers become idols once they reach notoriety. It is the Entertainment House that auditions young talented people to turn them into trainees that will be educated with singing lessons, dance classes, song writing and even image making (closer to a brand image than a personal style). After a period of training that can take up to five or six years, the House forms groups with different trainees and makes them debut to the public. This process allows the House to have complete control over the musical products that are launched because the idols are very easy to market, especially in a world of influencer marketing. For Entertainment Houses this strategy means the possibility to mass-produce K-pop music and, subsequently, sell many other related products such as concerts and events tickets, clothing items and various merchandise. Even though it took a few years for these Houses to define their approach, eventually, by the early 2000s, the recruitment, the training and the image consultancy all came together in what Shin S.I. et al (2013) call the systematizing of star production. And while the first international successes happened by chance, these music producers have perfected their strategies to widen their profits.

Figure 3.2 shows expansion of K-pop products in international markets by representing the revenues SM Entertainment, one of the first Korean music Houses.

Figure 3.2 - SM Entertainment Revenues Growth



Source: Shin S.I., Kim L. (2013).

A further step toward internationalization of K-pop was the training of multilingual idols, the organization of international tours of concerts and the establishment of overseas subsidiaries to obtain better deals with local partners for market penetration. For instance, YG Entertainment, founded only one year after SM Entertainment, launched in 2012 YG USA, YG Hong Kong and even a joint venture with a famous Japanese music producer for better representation overseas. We could even say that digital technologies have brought an overall reorganization of the industrial landscape of the Korean music industry. Not only they broadened the delivery channels available for distribution but their disruptive democratic potential also empowered customers to express their preferences and at the same time offered incredible opportunities to

companies to expand their businesses<sup>48</sup>. In 2019 the second and the third most liked Youtube videos of the year were K-pop songs.

There is also another factor that played a very important role in Entertainment Houses success: the homogenization of domestic market's tastes. From the early 2000s, Korean consumers have developed a strong preference for K-pop songs with respect to foreign music and the demand for this specific Korean music genre has grown. For companies this was a great advantage as they could not only expand their revenues but also concentrate on perfecting their idol success formula instead on investing in other types of music. This mechanism generated a feedback loop in which consumers and firms feed each other's needs and they all emerge satisfied by it.

Of course, we cannot deny that modern information communication technology has played a fundamental role in the growth of K-pop appreciation abroad. Youtube, Spotify and other streaming services helped international consumers in discovering this very particular music genre and ultimately increased the Hallyu phenomenon. Korean celebrities in particular have become the faces of the Korean Wave and help spread a positive country image across other nations.

### **3.3 Tourism In South Korea**

The tourism economics in South Korea can be described as more of a consequence of Hallyu rather than a source. Even though it would not be wrong to say that visitors that enjoyed their stay in the country would then see Korean products under a more positive light.

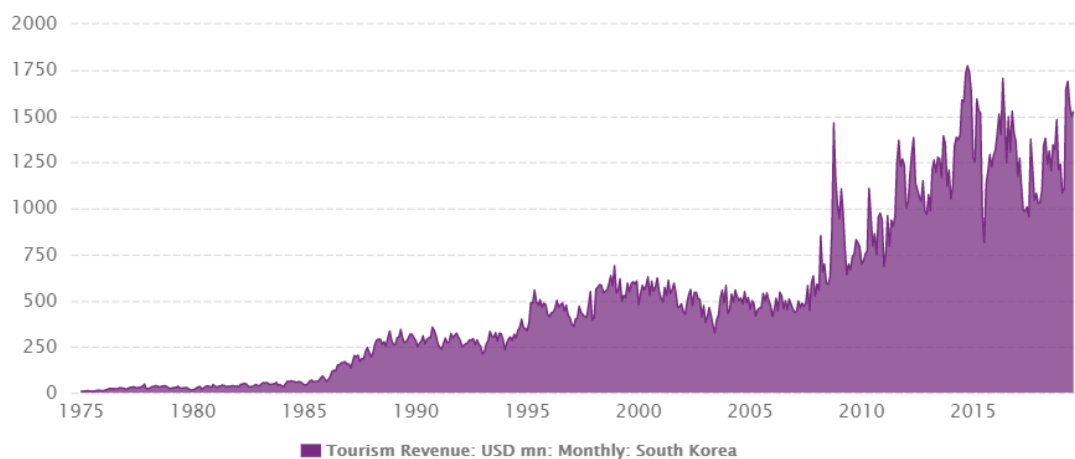
When the Republic of Korea was only known for its recent war, not many people wanted to visit the country, so it was only after the nation started its economic growth that international tourists started seen it as a valid destination. As explained in chapter I, the Olympic games of 1988 shed a new light on the Korean Republic, therefore we can say that was the main turning point for the country. Years before the Olympics, the Korean Government established a Korean National Tourism Corporation (KNTC) with the specific purpose of regulating internal and external movements of people and set

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<sup>48</sup> Lee J. (2009), *Contesting the digital economy and culture: digital technologies and the transformation of popular music in Korea*, InterAsia Cultural Studies, Routledge, 10:4 pp. 489-506.

up necessary infrastructures to develop a proper tourism industry.<sup>49</sup> This sector received special consideration from the Government because of the possible benefits to reap from it. Therefore from the late 70s onward, the KNTC invested a substantial amount of public funds in touristic facilities. At the beginning of the 80s expenditures to enlarge tourism industry were higher than the receipts from foreign visitors due to the fact that the country was strongly focused on preparations for the Olympic event. Initially visitors mainly came from neighboring countries such as Japan, China, Hong Kong and Taiwan but today many other developed countries' citizens see South Korea a worthy destination for their travels. Although tourism-related activities account for a small share of the GDP (5.1% in 2017<sup>50</sup>), numbers tell us that revenues from these activities grew a lot in the last 50 years, as showed in Figure 3.3 below.

Figure 3.3 - Tourism Revenues In South Korea.



Source: CEIC Data (2020), *South Korea Tourism Revenue*.

Seo J.H. et al (2019) made a very accurate analysis to explain why Korean revenues from tourism increase so dramatically around 2010 and the results consistently support the hypothesis that the Korean Wave was a key factor in such growth. Thanks to the cultural products exports and their easier consumption through internet technologies, many international tourists developed a curiosity toward South Korea.

<sup>49</sup> Lee S.Y. (2006), *The Korean War And Tourism: Legacy Of The Korean War On The Development Of The Tourism Industry In South Korea*, International Journal Of Tourism Research, Wiley InterScience 8, pp.157-170.

<sup>50</sup> Seo J.H., Kim B. (2019), *The "Hallyu" Phenomenon: Utilizing Tourism Destination As Product Placement In K-POP Culture*, Tourism Economics, Sage, University of Sogang, Seoul.



Seeing the incredible expansion of the tourism industry later on, it seems that the Korean Government was right to invest so heavily in it. Already from the 90s, in fact, several benefits were brought to the Korean economy thanks to tourism activities. These benefits comprehend the primary effects on economic activities like hotels, but also secondary effects such as personal income. Because of low leakages in this type of expenditures, tourists' money spent on Korean activities were retained in the economy and continued to circulate producing secondary effects and contributing to the economic growth of the country<sup>51</sup>.

Lee C.K. et al (1995) studied this spillover effect thoroughly using tourism multipliers of output. The multiplier mechanism tells us the amount of output generated from a one-unit change in tourist spending. It also tells us the degree of inter-sector linkages, i.e. which sectors are more likely to grow because of their affinity to tourism, such as hotels and restaurant revenues.

Table 3.1 - Tourism Multipliers Effect on Output, Personal Income and Employment.

Tourism Sector	Direct Effect	Indirect Effect	Induced Effect	Tourism Multiplier <sup>a</sup>
<b>Output</b>				
Hotel	0.3393	1.2649	0.9099	2.5132 (3) <sup>b</sup>
Restaurant	0.3786	1.2632	1.1855	2.8273 (1)
Transport	0.2666	1.2266	0.9001	2.3933 (4)
Shopping	0.2898	1.2519	0.6893	2.2309 (5)
Entertainment	0.3573	1.2906	1.0490	2.6969 (2)
<b>Personal income</b>				
Hotel	0.2473	0.0976	0.1643	0.5092 (3)
Restaurant	0.3346	0.1153	0.2143	0.6641 (1)
Transport	0.2616	0.0800	0.1627	0.5043 (4)
Shopping	0.1707	0.0908	0.1246	0.3861 (5)
Entertainment	0.2900	0.1081	0.1896	0.5877 (2)
<b>Employment</b>				
Hotel	0.0462	0.0121	0.0219	0.0802 (3)
Restaurant	0.1826	0.0134	0.0286	0.2245 (1)
Transport <sup>c</sup>	0.0268	0.0101	0.0217	0.0586 (4)
Shopping	0.0277	0.0115	0.0166	0.0559 (5)
Entertainment	0.0571	0.0135	0.0253	0.0959 (2)

<sup>a</sup> Represents the total effects (direct plus indirect plus induced) derived from 1990 Input-Output Tables, Bank of Korea (1993).

<sup>b</sup> Parentheses indicate rank based on the magnitude of the multiplier.

<sup>c</sup> Includes transportation and communication.

Source: Lee C.K. et al (1995).

<sup>51</sup> Lee C.K., Kwon K.S. (1995), *The Importance Of The Secondary Impact Of Foreign Tourism Receipts On South Korean Economy*, Journal of Travel Research, Sage, Vol. 34, Issue 2, 1995.

### 3.4 The Korean Beauty Industry

In the previous paragraph, we saw how tourism can bring great value to a country but not all tourists come to visit a place for the same reasons. In recent years, a very specific type of tourism has developed in South Korea, the so called medical tourism. Medical tourism is not new, we can witness it in many thermal places where people with specific physical conditions go to improve their health. In the case of South Korea, however, it is not a health improvement that people seek.

South Korea has been defined the vainest country in the world for its incredibly high rate of plastic surgery operations and plastic surgeons in the country. The Korean Association for Plastic Surgeons estimated that in 2010, 44% of Korean college students had a cosmetic surgery intervention of some kind<sup>52</sup>. In 2019, South Korea counted the highest density of plastic surgeons in the world: around 2,330 for a population of 51 million people, a ratio twice as big as the US that has 6,800 plastic surgeons for a population of 327 million people<sup>53</sup>.

To have so many plastic surgeons is a very interesting indicator because the number of graduates from medical schools in South Korea is decided by the Government and is below the OECD average<sup>54</sup>, which means that a consistent number of medical students voluntarily decides to pursue a career in esthetic surgery. But why is such path so popular for Korean doctors? To answer this question we need to look into Korean social values and beliefs. In fact, it is a complex combination of values of national identity, tradition and beliefs from official and non official religion. Through the years, the Korean society has developed very specific beauty standards that originates both from Korean history and Western countries influence. Both men and women engage in practices of self care and self identity and, usually when becoming of age at 19, they choose to undergo surgical procedures for what they believe will enhance their social status and image. Figure 3.4 shows the increase in spending for beauty products and procedures over the years.

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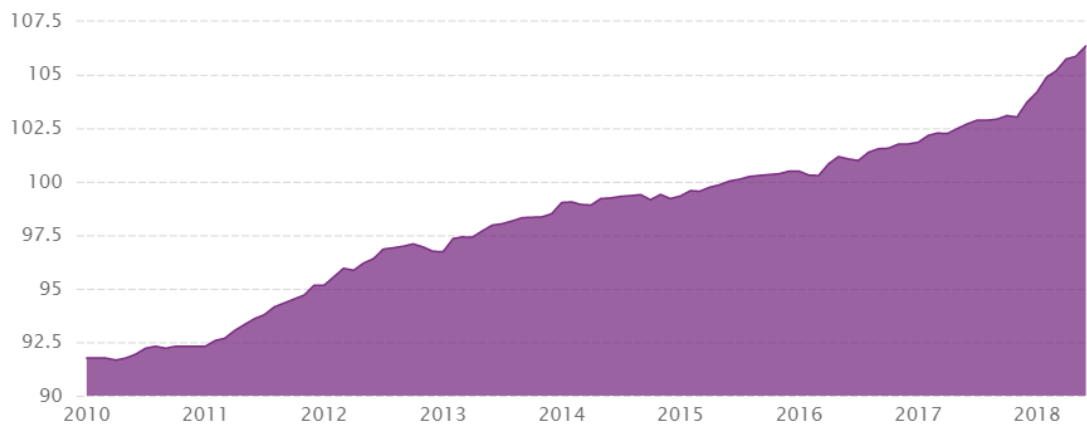
<sup>52</sup> Holliday R., Elfving-Hwang J. (2012), *Gender, Globalization and Aesthetic Surgery in South Korea*, University of Leeds, University of Frankfurt, Sage, *Body & Society*, 18(2) 58–81.

<sup>53</sup> Lock H. (2019), *Which is the World's Vainest City?*, *The Guardian*, 4 Sep 2019.

<sup>54</sup> Jones R.S. (2010), *Health Care Reform In Korea*, OECD Economics Department Working Papers No. 797, 28 Jul 2010.

Even Korean cosmetics industry has seen a heavy boost thanks to Korean obsession for appearance. Today K-beauty products are famous all over the world and sold in many Western cosmetic stores, for instance Sephora.

Figure 3.4 - South Korea Beauty Care Spending.



Source: CEIC Data (2020), *Korea CPI Beauty Care Charge*.

Because of the increase in demand for this type of interventions, more and more clinics were opened in South Korea and their work has specialized so much that they are now considered a global excellence in cosmetic procedures.

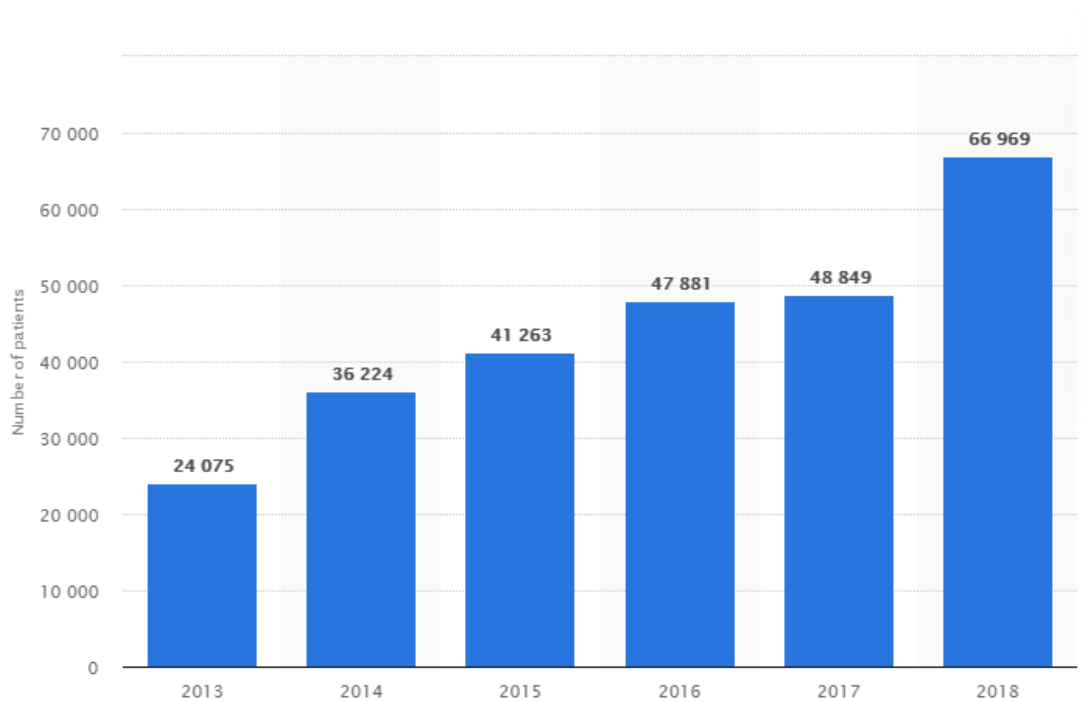
For this reason many international tourists have decided to come to South Korea to undertake plastic surgery instead of doing it in their countries. Anyways not all the cosmetic procedures requested in these clinics are invasive practices, many are just what Holliday R. et al (2012) call “quick fixes” such as Botox injections to reduce wrinkles and correct blemishes.

The Korean Government also played a role in fomenting the credibility of plastic surgery interventions in Korean hospitals and clinics to increase its medical tourism seen as a great resource. In particular, in 2014, the Government invested 4 million US dollar to promote medical tourism of this kind<sup>55</sup>. From Figure 3.5 we can say that those investments worked, as from 2013 to 2018, the number of foreign patients that undergo cosmetic interventions in South Korea more than doubled.

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<sup>55</sup> Stevenson A. (2014), *Plastic Surgery Tourism Brings Chinese to South Korea*, The New York Times, 23 Dec 2014.

Figure 3.5 - Number Of Foreign Patients In Korean Plastic Surgery Departments.



Source: Won S. (2020).

Medical tourism is a great part of the Korean Wave for three reasons. First, the good reputation surrounding Korean hospitals professionalism and excellence favorably contributes to South Korea's country image and all the consequences discussed in Chapter I. Secondly, all the money tourists spend on this sector improve Korean economy. Finally, foreign patients' positive experiences continuously feed on the loop of high reputation.

Perhaps the beauty industry is not to be classified as a cultural industry per se, but sure enough it has strong roots into the cultural heritage of its country and, therefore, promotes the Hallyu phenomenon.

Cultural industries like the three described in this chapter are inevitably tied with people's emotions. Music, experiences and improving our external appearances are all elements that contribute to the definition of our sense of self. In this time more than ever in history, we seek ways to express our individuality in a world made for mass consumption. Especially for younger generations, such as Millennials and Generation Z, nurturing their self image by engaging in certain activities means expressing their affiliation with a social group in which they recognize themselves.

This emotional and psychological pull toward differentiation is probably what increased appreciation of cultural Hallyu among young people all over the world.



## Chapter IV: Beyond The Wave

Looking at the industries alone it does not suffice to draw a complete picture of the South Korean society's evolution and its macroeconomic growth. There are important social aspects that we need to account for as well. In fact it is the people themselves that have changed and adapted with the economy as we have mentioned before in the hybridization of music culture. The gender roles, for instance, went through a strong adjustment period but still retain some differences with respect to Western societies. These changes brought also some shifts in the structure of households.

Another important aspect that defines Korean society is the evolution of education, not just in terms of Government's planning but also on how the importance of a sound education is perceived by the population.

As success is not linear, not all decisions taken by the Government were always welcomed by the people. South Korea has witnessed harsh protests in which Korean citizens voiced their concerns and demanded new solutions from their legislators. All these elements together are what allowed the Southern Korean nation to become the powerful State it is today.

### 4.1 Dissecting The Wave

This paragraph will focus on a overall assessment of the major macroeconomic and social indicators to obtain a comprehensive explanation of which factors played a major role in South Korea's economic growth.

Kohli U. et al (1998) concentrated their analysis on the period from the 1970s to the early 90s and attributed the great growth of these years to 3 main elements: the surprising rate of technological change that the country enjoyed in this period, the contribution of terms-of-trade<sup>56</sup> which created income growth and the rise in employment (especially in the service sector).

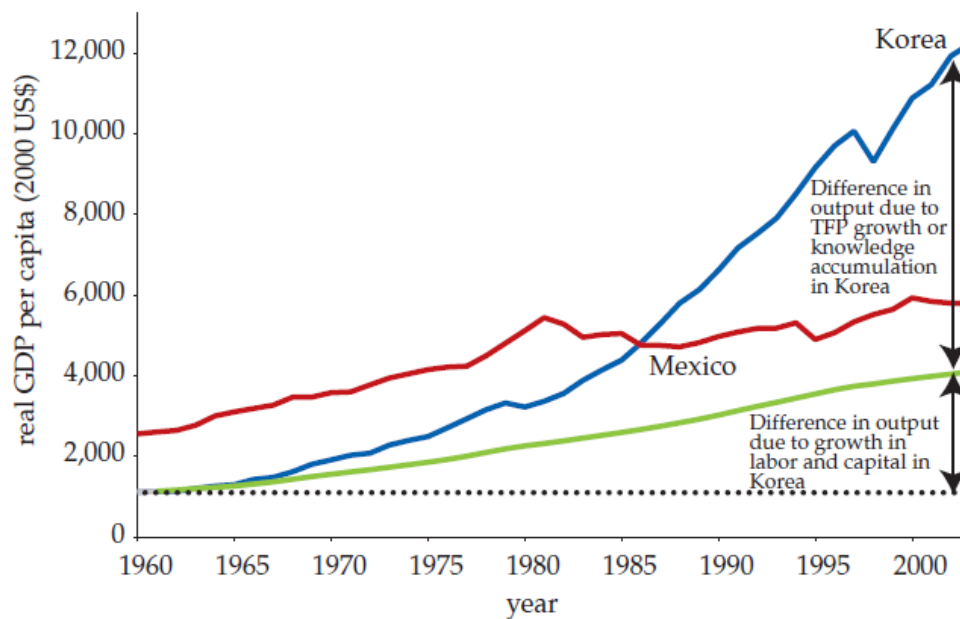
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<sup>56</sup> Terms-of-Trade (ToT) is computed as the average price of exports over the average price of imports, multiplied by 100. Therefore the higher the number, the more imported goods a society can buy from its revenues from exported goods.

Because no indicator is as thorough as the GDP in telling us the overall economic situation of a country, therefore it is only right that we start from it to dissect the Korean Wave.

A fundamental boost to the country’s macroeconomic development was obtained thanks to the important contribution of Knowledge Economy as we can see from the spectacular rise in GDP per capita depicted by Figure 4.1.

Figure 4.1 - Contribution Of Knowledge Economy To GDP Growth.



Source: World Bank, Korean Development Institute (2006).

Figure 4.1 also shows us a comparison between Mexico and South Korea to graphically define why we call the Korean country a “Miracle Economy”. Mexican GDP per capita was twice as big as the Korean one in 1960, but fast forward to the early 2000s and the situation was reversed. South Korea’s GDP per capita became more than two times larger than Mexico’s.

Of course GDP is not the only indicator that can tell us how well a country is performing. For instance, about income inequality measures we can say that South Korea presents a positive scenario: with a Gini coefficient of 0.35 in 2019, smaller than the United Kingdom<sup>57</sup> and a Poverty Gap smaller than Italy<sup>58</sup>.

<sup>57</sup> OECD (2019), *Income Inequality Indicators*, OECD Data.



Furthermore not only the country has a low total unemployment rate, but also a low youth unemployment rate (concerning young people from age 15 to 24 years old): only 10.4% in 2019, quite low with respect to Italy and Spain that count a rate of more than 30% in such population group<sup>59</sup>. From these measures, it is clear that South Korean economy is going great, but what about the quality of life? In the next section, we will understand something more about life in South Korea.

## 4.2 Life In South Korea

There are many different aspects that make a good standard of living in a society. To better investigate how well the Korean Government is managing these elements, this section is going to focus on the Korean health care system, the education system, households structures and the more delicate aspect of gender roles.

### 4.2.1 - Korean Health Care System

South Korean population is aging fairly quickly. In 1970, the share of the population of 65 years old or older was around 3% while in 2018 it reached the 14.3% of total population. Furthermore projections for the future say that by 2036, South Korea will have an elderly population of 30.5% and, even, about 40% by 2050<sup>60</sup>.

In a society aging so rapidly and with an increasing life expectancy, the need for an efficient health care system is greater.

Already from its early stages of development, South Korea established a mandatory health insurance for industrial workers which was then extended first to the self-employed and subsequently, to the entirety of the population. Therefore by the beginning of the 90s, the Korean nation had already achieved universal coverage of health insurance for its population. In 1995, 97.6% of Korean citizens were insured<sup>61</sup>.

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<sup>58</sup> The OECD defines the Poverty Gap as the ratio by which the mean income of the poor falls below the poverty line where the poverty line is defined as half the median household income of the total population.

<sup>59</sup> OECD (2019), *Youth Unemployment Rate*, OECD Data.

<sup>60</sup> Lee S., Choi H. (2019), *Impact Of Older Adults' Mobility And Social Participation On Life Satisfaction In South Korea*, Asian Social Work and Policy Review, Wiley Library, DOI: 10.1111/aswp.12187.

<sup>61</sup> Kwon S. (2008), *Thirty years of national health insurance in South Korea: lessons for achieving universal health care coverage*, Oxford University Press, Health Policy and Planning 2009, 24:63–71.

Contrary to what happened in Western countries, Welfare State in South Korea was not the result of strong efforts by labor unions and class struggles. It was during the Government Fourth Economic Development Plan in 1977 that put an emphasis on the social situation and the need for a proper social development.

From the early 2000s, the situation evolved substantially as the Government decided to bring major changes to the national health care system. Some of these adjustments were necessary as population needs were different with respect to the 70s. For instance, in 1977 when health insurance was first introduced, life expectancy was 64.9 years old while in 2017 it reached 82.6 years old<sup>62</sup>. In the same period child mortality rate decreased from 33.7 infant deaths per 1,000 infants, to 3.2 deaths in 2018<sup>63</sup>.

The Government decided to improve the system's efficiency starting with the payment system. First, all three types of insurance societies were merged together to manage a centralized system of payments (including a fee per service system) and better track movements of money. Only the poorest 5% of the population was included into a special program to be managed separately.

Table 4.1 offers a comparison between Korean population's general health in 1977 and today.

Table 4.1 - Health Indicators In South Korea.

	<b>1977</b>	<b>1989</b>	<b>2018</b>
GDP per capita (in US\$)	1042	5430	31,362.8
Life expectancy	64.9	71	82.7
Mortality (per 100,000 persons)	690	542.3	582.5
Infant mortality (per 1,000 births)	33.7	12	3.2
No. of physicians per 10,000 persons	5	8	23.6
No. of physician visits per capita	3.7	6.2	17

1977 = introduction of the health care insurance;

1989 = insurance universal coverage;

*Source:* Updated version of the data described by Kwon S. (2008).

<sup>62</sup> World Bank (2020), *Life expectancy at birth, total (years) - Korea, Rep.*, The World Bank Data.

<sup>63</sup> Unicef (2020), *Republic of Korea: Key Demographic Indicators*, UNICEF Data Country Profiles.

The increase in the share of elderly population meant a higher mortality rate, as we can see from Table 4.1, and a consequent rise in public health spending which doubled from the 70s to the early 2000s. These expenses grew so much that South Korea accounted for the highest growth in health care spending among OECD countries<sup>64</sup>. Therefore, the Government tried to contain these expenses by moving long-term care cases out of hospitals.

Jones. R. (2010) believes there are also other explanations as to why South Korea health spending is higher than the OECD average and these reasons are to be found in some structural inefficiencies of the health care system itself. The fee per service system encourages the medical personnel to add unnecessary services in patients treatments only to increase their final profit. For example, calling back patients with minor injuries every couple of days for unneeded consultations. The result of such mechanism is showed by the fact that South Korea has one of the highest numbers of consultations among OECD countries.

Nowadays, Korean health care system is very advanced and, as explained earlier, enjoys a good reputation even abroad. However, especially for the years to come, South Korea's Government will probably have to adjust some of its health related spending to better accommodate elderly people's needs. As never before in its rather short modern history, the country had the problem of an aging population.

#### *4.2.2 - Expanding The Korean Education System*

The South Korean Government has always recognized the importance of developing skilled human resources both for its labor force and for the more indirect effect of improving the country's innovative power by nurturing great minds. Of course, the better way to achieve this end result was to invest in education.

Korean education system achieved a quantitative and qualitative expansion in tandem with the economic growth of the nation. Many of the Government investments were in fact geared toward creating an education system that could satisfy national needs in the wake of the war. So the expansion started from elementary schools to fight illiteracy and progressed up through vocational high schools in the 70s to teach craft

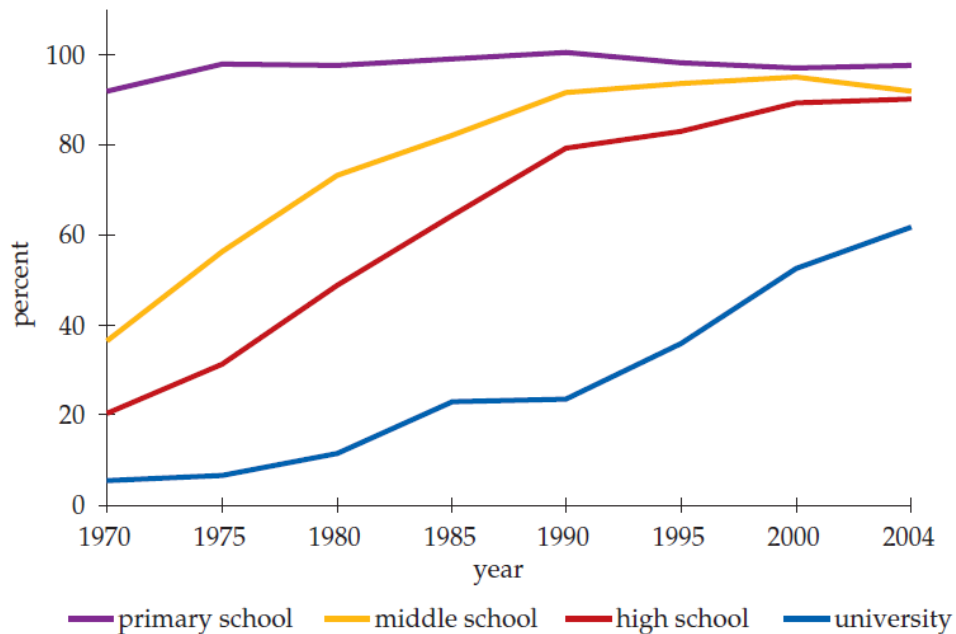
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<sup>64</sup> Jones R.S. (2010), *Health Care Reform In Korea*, OECD Economics Department Working Papers No. 797, 28 Jul 2010.

skills to be applied in the industry field. Then in the 80s, government-led educational programs became focused on high quality education for “white-collar” workers.

Figure 4.2 in the page below shows the evolution of Korean education system through the economic development of the nation.

Figure 4.2 - Education Expansion in South Korea.



Source: World Bank (2020).

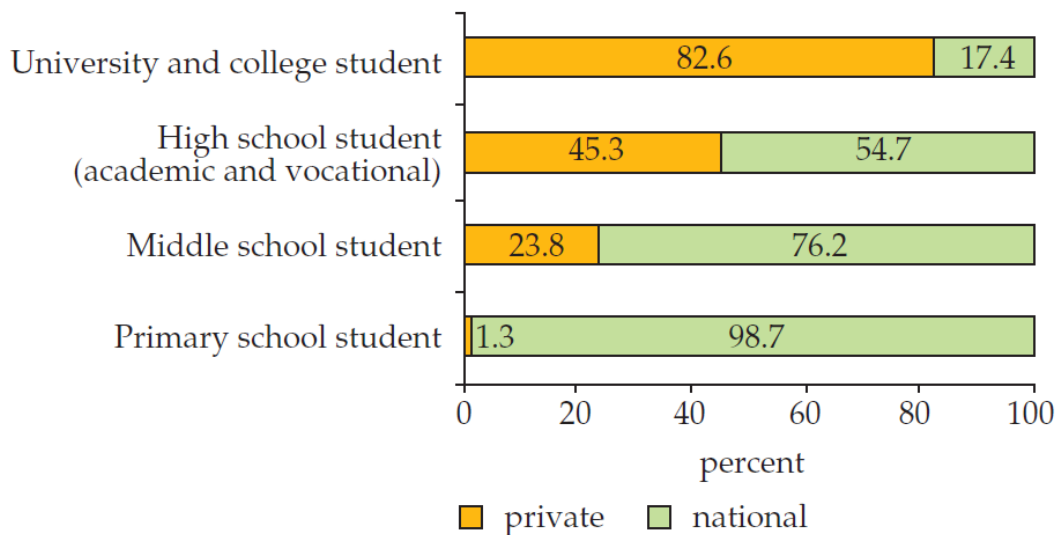
Today, South Korea presents an excellent education system based on student-centric approach in which the student must show an active learning attitude and form an interdependent relationship with the teacher. Students are charged with a great degree of responsibility and accountability through which they will develop a strong sense of autonomy from a young age. This approach is commonly established with student-activating methods, minimal guidance methods, open-ended learning environments, cooperative learning and project-based learning.

Through the years, Korean Government has given its education system a prioritized position which shows from the high growth rate in public education budget. In 2002,

education expenses represented the 7.1 percent of Korean GDP, a level much higher than the OECD average which was 5.8 percent in the same year<sup>65</sup>.

For this reason, in the last couple of decades, private forms of education from either households or private foundations have been encouraged in South Korea to bear a share of the education costs. As we can see from Figure 4.3, today the private sector comprises the 45.3% of total secondary education enrollment and up to 82.6% of tertiary education enrollment, while primary education remains mostly publicly managed.

Figure 4.3 - Public Versus Private Education Enrollment.



Source: World Bank, Korean Development Institute (2006).

Nowadays, South Korea is one of the countries that have achieved the best results in international assessment programs. For instance, in the Program for International Student Assessment (PISA), it was ranked in the top ten for reading and science. Korean students also outperformed the great majority of their foreign peers in mathematics and science in the TIMSS test (Trends in International Mathematics and Science Study) in 2016<sup>66</sup>.

<sup>65</sup> World Bank, Korean Development Institute (2006), *Korea as a Knowledge Economy: Evolutionary Progress and Lessons Learned*, Washington: World Bank.

<sup>66</sup> Yang J., Tan C. (2019), *Advancing student-centric education in Korea: Issues and challenges*, The Asia-Pacific Education Researcher, Nanyang Technological University, April 2019 1-11.

For Korean students, performing well in their educational career is of utmost importance. The great effort these young people put into their studies is called by Yang J. et al (2019) an “education fever”. The strive to be the best is a serious issue among Korean young generation. There is a strong overachieving urge to be the smartest, the most skilled and, even, the most attractive as we saw from the high rates of cosmetic surgery procedures. But these high standards come to a price that is measured in stress and social pressure under which many young people collapse.

The dark side of this hypercompetitive society is unfortunately counted on human lives. Suicide is one of the main causes of death among people between 9 and 24 years old in South Korea in 2013. In 2012, the National Youth Policy Institute revealed that one in four students in the Korean Republic entertained suicidal thoughts<sup>67</sup>.

Overall, this country’s statistics on the matter are preoccupying as South Korea has the highest rate of suicide among OECD countries.

For students, most of these suicides occur after the CSAT<sup>68</sup> results are published. Without this high score, students will not be able to enroll into one of the three premium universities of South Korea and will not bring prestige to their families. For the boys and girls that fail sometimes suicide seem a better option than confessing their demise to their parents.

Two major reasons determine why Korean students are subject to so much pressure during their education. The first is to be found in the Confucian values that are still so dear in Korean society. In Confucianism education is associated with social respect and bringing respect to highly educated people. This cultural factor also translates in the feeling of obligation for Korean families to support their children in the best possible education and, in return, younger people will bring respect to their elder family by doing their best.

Another reason for this “education fever” is due to the quick economic development’s influence on societal dynamics. The great role of Knowledge Economy in South Korean growth gave rise to an extremely competitive society where having a great education is seen as a measure of personal success. In advanced economies, like the Korean one,

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<sup>67</sup> Hunt J.S. (2015), *Suicide Mortality Among Students in South Korea: An Extended Discussion*, International Forum, Vol. 18 No. 2, October 2015, pp. 105-120.

<sup>68</sup> CSAT (College Scholastic Ability Test) is the national test score that will determine students’ admission to universities in South Korea.

labor demand has shifted toward greatly qualified workers. Workers quality can depend on many things, but a sound education is definitely a major determinant in this context.

Although students feel pressured to do well in their studies in any country, South Korea has brought this phenomenon to an extreme, showing that great results really come with huge commitment and dedication.

#### *4.2.3 Social Issues and Classism*

The quick economic development of the country, has left some imbalances in Korea social structures that brought unhealthy social issues to the surface. The process of globalization undertaken by South Korea has created a shift from traditional and collective moral values to a more individualistic and materialistic society, similar to Western countries.

Traditional Korean society was characterized by a strong polarization between the rich nobles and the poor. With the industrialization of the country and the rise of a new middle class better educated and more skilled the social class system disappeared. In its wake, still some social inequalities are perceived among the Korean society and a silent war between classes is still present. The first symptom of this imbalance is given by the educational inequalities that take place when children's educational achievements are affected by the class position of their parents<sup>69</sup>. Although the diffusion of public education has managed to lessen this phenomenon, it is still not completely solved.

Because people from the higher classes feel the need to protect their status, the general mentality surrounding these social structures is that it is very difficult for someone who comes from a lower level to climb in upper levels. Kim Y. (2019) explains that the result of such social prison is the higher incidence of unhealthy habits from people of lower class. For instance, excessive alcohol consumption and tobacco has South Korea ranked as one of the highest rates of male smokers in the world<sup>70</sup>.

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<sup>69</sup> Shin K.Y., Lee B.H. (2010), "Social Class And Educational Inequality In South Korea", Attewell P., Newman K.S., Oxford University Press, pp. 105-123.

<sup>70</sup> Kim Y. (2019), *Perceived Social Status And Unhealthy Habits In Korea*, Drug And Alcohol Dependence 194, pp. 1-5.

As mentioned before, another great social problem in the Korean peninsula is represented by the high rate of suicides. Although last paragraph already unraveled what is the main drive toward such a desperate act for young people, what is it that pushes older generations to the same choice?

Park B.C. et al (2006) gather these issues under a discourse in which they explain how Korean society has moved during the last 60 years into an “anomic state”: a condition in which the bonds between individuals and society are weakened and the individual is drawn to committing destructive acts when they feel alienated from the society. Because of the strong sense of social cohesion, South Korea, together with other culturally similar Asian countries, has developed a psychological form of altruistic suicide. This theory states that an individual who feels like a dead weight for others to bear prefers to take his own life.

For Shin A. (2003) these problems will continue to lessen and eventually disappear as time goes by and Korean society reaches a new moral equilibrium with no more conflicting values.

#### *4.2.4 - Changes In Household Structure and Gender Discrimination*

In Western societies, one of the main effects of the industrial revolutions was the increase of women participation in labor force which also meant a consequent change in household structure. Patriarchal families gave way to nuclear families where both men and women have a job and take decisions together.

The switch that mainly contributed to increase women labor participation took place in the mid-80s when South Korea started to rely on a service-based economy. The Government itself had an active role in increasing the hiring of qualified women by issuing the Equal Employment Opportunity Law in 1987, the Gender Discrimination Prevention and Relief Law in 1996 and a proper Ministry for Gender Equality in 2000<sup>71</sup>. Although feminists movements fought against the family-head system since the 80s, its proper abolition only happened in 2005.

The transition from patriarchal to nuclear, however, was not as smooth as it might seem from these laws and today we still see remnants of the old traditional mentality

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<sup>71</sup> Tompkins R.C. (2011), *Working for Change: Gender Inequality in the Labor Force in Japan, South Korea, and Taiwan*, Senior Theses, Trinity College Digital Repository, Hartford C.T.



in the Korean society. The strong influence of the conservative party raised arguments that for a long time kept women close to traditional gender roles. For instance, the greater number of women participating in economic activities meant the postponement of marriage at an older age. Getting married later also led to rising celibacy and fewer children. In 1985, the average number of people per family was 4.5 and it decreased at 2.9 in 2005<sup>72</sup>.

Yang H. (2008) states that feminists movements started to gain more consensus and power as the country experienced the process of internationalization. For instance, in 2000 the World Bank announced that South Korea was experiencing economic and productivity loss due to ineffective utilization of female labor<sup>73</sup>.

Because of the strength of traditions in South Korea, any attempt at revolutionizing the law on the matter of gender roles seemed grounded from the start. It was thanks to the novel air of change from the globalization that feminism was able to flourish in South Korea. Women labor participation has increased substantially through the years of Korean economic development: from 41.9% in 1985 to 53% in 2019<sup>74</sup>.

Discrimination based on gender is unfortunately present in blatant but also in subtle ways in South Korea.

Subtle discrimination is perpetuated silently. It is about perceptions and happens more indirectly. It reveals itself when women feel that they are being treated differently to men, that they are not being judged as a man would and, therefore, also their behavior needs to change. Yoon T. (2019) talks about the incidence of beauty standards in Korean women job interviews. She explains that South Korea has a highly educated work force but a limited number of jobs which results into a great competition among candidates in the job market. For women, beauty has become one of the implicit determinants to stand out with respect to other job applicants. Some of these Korean women even got as far as considering esthetic surgery procedures to better fit into the beauty standards expected by society.

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<sup>72</sup> Kim S.W. (2009), *Social Changes and Welfare Reform in South Korea: In the Context of the Late-coming Welfare State*, International Journal Of Japanese Sociology, No. 18.

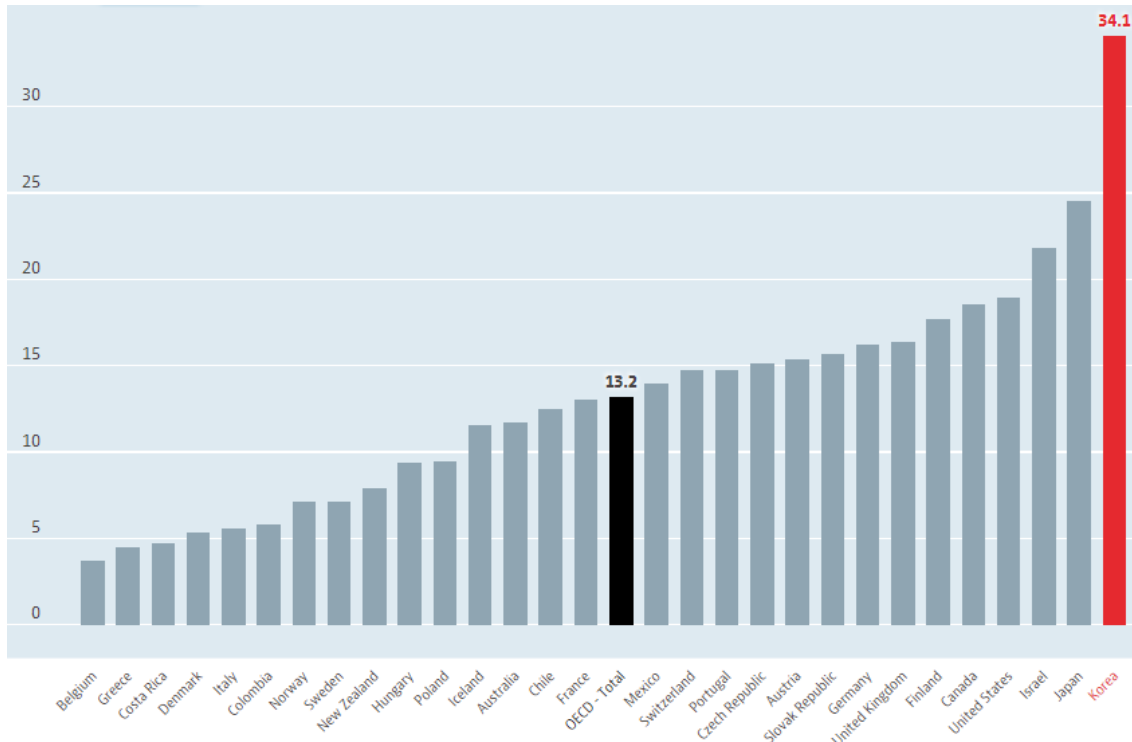
<sup>73</sup> Kang H.R., Rowley C. (2005), *Women in Management in South Korea: Advancement or Retrenchment?*, Asia Pacific Business Review, Vol.11 No. 2, pp. 213-231.

<sup>74</sup> World Bank (2020), *Labor Force Participation Rate: female (% of female population ages 15+)* (modeled ILO estimate), The World Bank Data.

A clear signal that gender inequality is an issue in South Korea society is the significantly sharp gender pay gap which tells us the difference between median earnings of men and women relative to median earnings of men (OECD, 2020).

Figure 4.4 shows the gender pay gap relative to the OECD countries in 2018 and we can clearly see that the data of South Korea (highlighted in red) are the highest.

Figure 4.4 - OECD Countries Gender Pay Gap 2018.



Source: OECD (2020), Gender wage gap (indicator).

It may be surprising to know that such strong misogynistic misconducts still exist in South Korea considering that this country had its first female President in 2013, Park Geun-Hye. However, it could also be taken as a signal that something is changing and that for the foreseeable future, Korean women will be free of these suffocating patriarchal standards.

### 4.3 - Protests And Sources Of Disagreement

Despite being able to accept changes and adapt quickly to development, the Korean people is very vocal about its needs. Not all the big reforms brought in the last seventy years have been welcomed with open arms by Korean citizens.

#### *4.3.1- Protests Against Park Chung-Hee*

One of the harsher protests happened in the 70s with the student movement that aimed at contrasting President Park Chun-Hee's Government.

President Park was the last President of the military government that took its position after a coup d'état in 1962 and became more and more authoritarian as time passed. Fearing the beginning of a proper dictatorship, university students that were seen as the catalysts for social change started a protest movement.

At first, president Park did not stop the movement believing that the protests could just be attributed to a general desire from the students to support the democracy. A few years later, however, students' criticism was redirected toward Park's Government new policies. For instance, the implementation of changes in the Constitution to make Park president for life and new trading agreements with Japan that were considered humiliating. People's resentment toward the freshly finished Japanese imperialism was still too bitter for any closer diplomatic relationship with Japan to occur.

Because of the new turn of events, Park's Government decided to involve military troops to resolutely put down the protests. Despite the coercive strength of these interventions, the students movement did not stop. Popular consensus was in fact supportive of these protests because they were not challenging the whole political structure. They were expressing sound criticism to public practices that were raising general concern among Korean people.

In the end, President Park had to resign from his position and give way to a more democratic Government that dismantled its authoritarian regime.

The persistence of the students movement remained in Korean history as a demonstration of people's power in deciding the fate of their own country.

Although not as violent, in 2016, South Korean people participated in a Candlelight protest against President Park Geun-Hye because of her implication in corruption scandals<sup>75</sup>. Korean law does not allow for a sitting president to be prosecuted, therefore people expressed their objections out loud in the streets until she resigned and was arrested.

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<sup>75</sup> BBC News (2016), *South Korea's Presidential Scandal*, BBC Website.

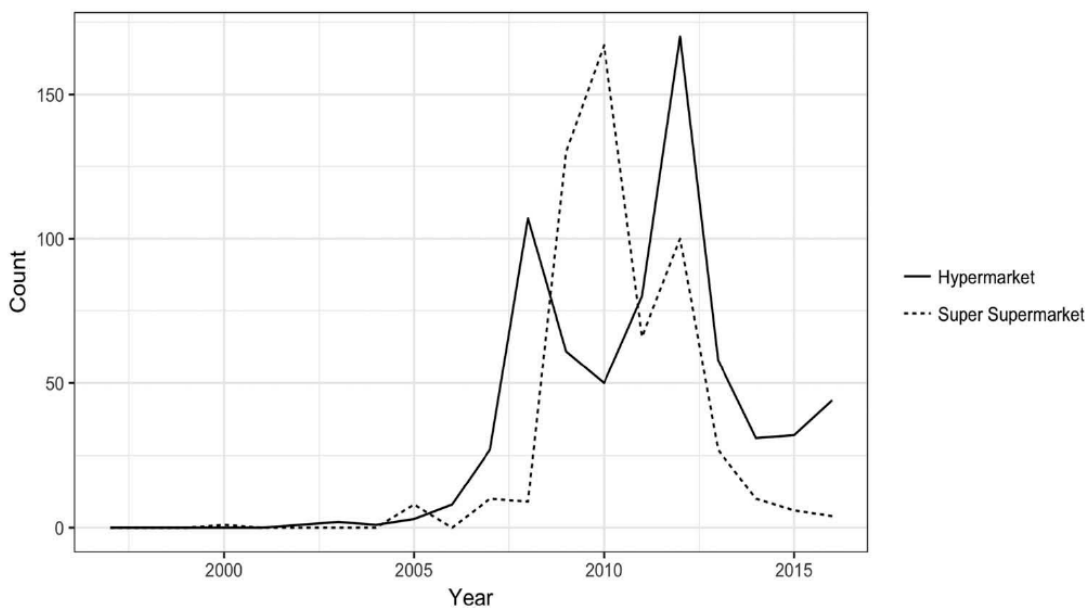
#### 4.3.2 - Trying To Slow Down The Change

Not all the protests from the Korean public ended successfully especially when they only concerned who was being left out of the great economic development.

During the 90s, as the Service Economy was blooming and Chaebols were expanding taking advantage of new opportunities, not everyone was happy with it. The main discontent began when Chaebols decided to enter the retailing sector in which up to that point, mainly small firms were proliferating. These small players such as local markets, neighborhood stores and small family-run businesses felt threatened by the rapid expansion of bigger firms and tried to attract the Government attention to be helped.

For the Government, however, the growing consumer culture and the interests of big standardized branded establishments were more profitable so the needs of smaller stores were simply ignored. Small business owners felt that the livelihood of their services was at risk and decided to take action. In 2005, protests against big supermarkets and hypermarkets were flooding the streets and the entrances of these modern establishments. Figure 4.5 shows the number of protests against super- and hypermarkets reported by local newspapers.

Figure 4.5 - Protests Against Big Service Establishments.



Source: Shin S.I., Kim L. (2019).

In the period between 1990 and 2011, the self-employment share in the service sector declined from 43% to 26.8% and in the distributive sectors, it declined from 57.9% to 39.9% during the same years<sup>76</sup>. Small entrepreneurs' activities were clearly suffering. Eventually, because of the great insistence of the protestants, the Government enacted some protective regulations, for instance, about the opening hours of large stores that were to be reduced with respect to smaller stores. These regulations also comprised the creation of protective areas in which big supermarkets could not be established to defend small local businesses.

Despite these new laws, big supermarket chains continued to prosper on South Korean ground. In fact, the restrictions imposed in protected areas only accelerated big firms' investments in online retailing services.

Small service firms kept feeling the pressure of such strong competition, but not much else could be done to hinder the power of Chaebols.

#### **4.4 - Environmental Problems**

The rapid industrialization of South Korea did not only alienate people from their traditional values, it also created big environmental issues that now the country is trying to fix.

One of the most urgent problems that the Korean Government must face is air pollution. Although it should also be specified that not all the pollutants found in the air of Korean cities was produced in the country. Sometimes strong winds coming from Russia move industrial fumes and substances from Chinese air to South Korea.

According to the World Health Organization, the most dangerous components of air pollution are Particulate Mater (PM), nitrogen dioxide from combustion of fossil fuels and sulfur dioxide from industrial processing of materials containing sulfur<sup>77</sup>.

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<sup>76</sup> Shin S.I., Kim L. (2019), *Chaebol and the Turn to Services: The Rise of a Korean Service Economy and the Dynamics of Self-Employment and Wage Work*, Journal of Contemporary Asia, National University of Singapore, Stanford University, US.

<sup>77</sup> Hwang S.H. et al (2016), *Potential Importance of Ozone in the Association Between Outdoor Air Pollution and Dry Eye Disease in South Korea*, American Medical Association, JAMA Ophthalmol, Vol. 134 No. 5, pp. 503-510.

The strong adverse effects of air pollution on human health comprise a wide spectrum of diseases that range from simple problems such as the Dry Eye Disease to severe ones such as respiratory and cardiovascular illnesses and even neoplastic diseases.

In 2019, because of the resilience of the problems, the Korean Government stated that air pollution was to be considered a proper social disaster and emergency measures would have to be taken accordingly<sup>78</sup>. These measures include limiting vehicle use in city centers, diminishing the use of coal-fired power stations and cutting emissions from producing facilities and building sites.

Air quality reached levels of toxicity so high that the Government also had to mandate the installments of air purifiers in public buildings such as schools. Furthermore, people were highly encouraged to buy their own air purifiers for their private houses.

All these remedies were not of much use in the fighting of fine dust pollution because 50% to 70% of it seems to be generated by Chinese intense industrial production.

When discussing South Korean environmental wellbeing, it would not be right to give the entirety of the fault to China. Earlier in its development, South Korea was trying to attract as many foreign investments as possible which meant that the country had to remain attractive through certain characteristics.

Literature about direct foreign investment theory and outsourcing practices tells us that big companies will relocate their production processes in countries where costs associated with these activities are lower. Ways to reduce these costs include the possibility to pay lower wages to workers in factories and looser environmental regulations.

Unfortunately, despite its attempts to do better in recent years, South Korea is responsible for the environmental laxity it perpetrated in order to obtain foreign investments. In fact, the country did not apply any strict environmental policy until the mid-90s, when the industry was well-developed and the expansion had moved on to the service sector. Chung S. (2014) shows that in the early 2000s, the overall pollution intensity of South Korea was still higher than not only advanced countries but also other nations in the same level of development.

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<sup>78</sup> McCurry J. (2019), 'Social Disaster': South Korea Brings In Emergency Laws To Tackle Dust Pollution, The Guardian, 13 Mar 2019.

The great economic growth experienced by South Korea was not an entirely miraculous period. It had beneficial effects on certain industries, it had mixed effects on people's values and mentalities and harsh consequences on the environment. Just like any other phenomenon, it balances up- and down-sides but overall we can say that it helped the country in moving into a new era with new challenges and new opportunities.





## **Chapter V: The Future Of Hallyu**

In recent years, South Korean economy has slowed down its growth and China has stolen the spotlight in terms of new economic miracle.

There are, therefore, contradicting positions when explaining how the Hallyu phenomenon is doing today. This chapter will cover both perspectives to understand if the popularity of Korean culture is declining or if the Korean Wave is still alive and thriving, just in a different way.

### **5.1 - Changing Perceptions And Cultural Proximity**

For a matter of cultural and geographical proximity, the Korean Wave has spread among Asian countries first and only in latest years it has been able to reach and expand in Western societies.

Recently, the Hallyu phenomenon has been regarded in two contrasting ways by foreign countries. For example, China has witnessed the rise of a “anti-Hallyu” movement while the US has welcomed K-pop music with open arms. Therefore, this paragraph will go deeper into these two perspectives to give a comprehensive view of all the ways Hallyu is perceived outside of South Korea.

#### *5.1.1 - The Hallyu Backlash*

There are many reasons that evoked the disliking of Korean products among East Asian and Southeast Asian countries. The first source of backlash is probably represented by the attainment of a maturity stage. In the life cycle of any product, there is always a maturity stage where the market is saturated and there are no more opportunities for growth unless the products is modified.

East and Southeast Asian countries have started to experience Hallyu by the beginning of the 1990s which means that they have lived through thirty years of it and Korean pop culture does not hold any trace of originality anymore. The perception of modernity and sophistication around the Korean Wave is lost to them now.

On a deeper level, the rejection of Korean products represents a way to express nationalism. For Chinese people, for instance, refusing to buy Samsung’s smartphones in favor of Huawei’s means to support national production.

The same sense of nationalism is also felt in Japan where dislike of Korean exports is mainly based on xenophobia and the difficult history of relationships between Japan and South Korea<sup>79</sup>. In Taiwan, some politicians expressed concern over the excessive number of Korean programs airing on Taiwanese television.

The general sentiment is a bitter opposition toward the unilateral exporting of culture from South Korea to other countries. The sense of an unbalanced globalization translates into an idea of cultural imperialism that East Asian countries have started to suspect would come from South Korea.

If so many reserves surround the diffusion of Korean products in Asian societies, then how did Hallyu manage to expand so widely? Well, this is when cultural proximity played a role. Before Hallyu expansion, cultural products coming from dominating Western societies proposed Western-lifestyles that had little to do with the reality that East and Southeast Asian countries were living. Traditionalists even believed that they had the potential to usurp local culture. It was natural back then to prefer local or regional products. The best alternative at the time was represented by Korean products that were cheaper than Japanese ones. Especially for what concerns entertainment and media, South Korean products were a better depiction of Asian values and sentiments and, therefore, more appreciated by the public.

Eventually, however, the constant presence of Korean programs in the media has frustrated the public to the point where some authors have started to talk about “media imperialism”.

Particularly in Southeast Asian countries, the cultural affinity with South Korea is wearing off rapidly because these countries do not share the same Confucian roots of their East Asian neighbors. The ethnic difference among these is much more present. Furthermore, nowadays, many of these countries have undergone a certain level of economic development and are more capable of producing for their own needs.

A similar situation happened for East Asian countries that despite holding the closest values to South Korea, have seen the latter’s culture adapt and reinterpret Western

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<sup>79</sup> Ainslie M.J., Lipura S.D, Lim J.B.Y. (2017), *Understanding the hallyu backlash in the southeast asia: a case study of consumers in Thailand Malaysia and Philippines*, Ateneo de Manila University, *Kritika Kultura* 28, pp. 63-91.

cultural elements, taking it further away from its traditional essence<sup>80</sup>. After South Korea, many other Asian countries have achieved a significant economic development and have started a national production of cultural products, dismissing Korean ones. Asian markets are characterized by a negative influence of Consumer Ethnocentrism on purchasing imported products. Consumer Ethnocentrism is the belief held by consumers about the morality and the appropriateness of buying foreign products<sup>81</sup>. Asian customers will therefore prefer to buy nationally produced items rather than imported ones, whenever possible.

### 5.1.2 - Sailing West

Fortunately for Korean firms, even if Asian markets are nearing saturation, the Hallyu phenomenon has already entered Western countries and is expanding there. In recent years, in fact, the East has stopped chasing the West as the situation has somewhat reversed and South Korean culture has become a trend setter in certain consumer sectors.

In the cosmetic industry, for example, Korean skin care products gained popularity because of Koreans' great attention to dermatological wellbeing. Spotting an opportunity, in 2017 the French cosmetic firms Alès Groupe, already the owner of famous brands like Lierac, launched Jowaé, a new line of products all inspired by multi-steps Korean skin care routines.

Western brands are hiring Korean influencers to promote their products throughout Asia. Especially for luxury brands, K-pop celebrities represent a great resource for advertising. These investments show that South Korea is perceived as having a very influential position among Asian markets.

The American public has especially appreciated K-pop music genre as Korean idol groups were invited to the Coachella music festival first in 2016 and again in 2019<sup>82</sup>.

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<sup>80</sup> Chen L. (2016), *The Emergence Of The Anti-Hallyu Movement In China*, Media, Culture & Society, University of Hong Kong, Vol. 39 No.3, pp. 374-390.

<sup>81</sup> Park H.J., Rabolt N.J., Jeon K.S. (2008), *Purchasing Global Luxury Brands Among Young Korean Consumers*, Journal of Fashion Marketing and Management, Vol. 12 No. 2, pp. 244-259.

<sup>82</sup> Brown A. (2019), *Blackpink Brings K-Pop Charm To Coachella And Wins Over Skeptics*, Los Angeles Times, 12 Apr 2019.

In the film industry, the Korean film *Parasite* has been so incredibly appreciated by the international audience to win the Oscar for best picture in 2020<sup>83</sup>. The case of *Parasite* is slightly more peculiar than the success of K-pop music because this film did not use catchy effects to win the public's attention. The story told by Bong J.H., *Parasite*'s director, is a denunciation of the still largely felt classism in the Korean society, therefore making it a closer representation of South Korean life than polished dance moves.

Another great point of expansion for Hallyu in Western countries is the food industry, in particular the opening of Korean restaurants and the diffusion of Korean products in Western supermarkets. The British food critic Rayner J. explained to the *Guardian* that Korean food has been on the rise for the past five years, becoming today a desired alternative of ethnic food for British public<sup>84</sup>. It is not only British people that have taken an interest in Korean food, in the last decade, Italy has witnessed a rapid diffusion of Korean restaurants in its largest cities, such as Milan and Venice.

## **5.2 - Sustainability And Opportunities For Growth**

Long-term sustainability of the Hallyu phenomenon depends on a series of things that originate not only from the consumers themselves, as we saw in the previous paragraph, but also from direct actions of the Korean Government and Korean firms.

To attract new consumers and retain existing ones without boring them, Hallyu must focus on innovation. For Korean firms, new ways of remaining relevant are represented by CSR and sustainability practices. The tendency of Korean Chaebols to diversify has come in handy when these firms decided to go down the path of CSR.

One of the first Korean companies to present a sustainability report has been Samsung. In 2013, the electronic firm established a Corporate Citizenship Group to have a centralized management of all the sustainable practices and projects to

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<sup>83</sup> Pulver A. (2020), *Parasite Overtakes The Passion Of The Christ As Biggest Ever Foreign Language Film In The UK*, *The Guardian*, 9 Mar 2020.

<sup>84</sup> Chaudhary V. (2019), *Feast From The East – Why Britain Is Surfing The Korean Culture Wave*, *The Guardian*, 21 Apr 2019.

develop. Since then, the company has committed to use recycled paper and plastic for its packaging and to power its facilities with sustainably-sourced energy<sup>85</sup>.

Unfortunately, however, Samsung is an exception in the reign of sustainability with respect to other big Korean firms. CSR is still underdeveloped for many Chaebols that will end up lagging behind their Western competitors, if they do not act up soon.

### *5.2.1 - Technologically Advanced*

As for the Korean Government, innovation is already in motion. South Korea definitely differentiates itself for its great investments in advanced technologies. Nowadays especially, many steps are being made toward to implementation of a comprehensive and effective 5G network.

Technology is in fact a great resource for the Korean society in a variety of domains, from education to energy production. It benefits the lives of millions of Korean people starting directly from their houses.

To better accommodate the changes required to fit in the new 5G connections, Korean Government invested about 5 million US dollar to adapt the electrical grid and make it “smart”<sup>86</sup>. It means that the network that distributes electricity from power plants to houses has integrated softwares that monitor consumption patterns. The upgrade for the electrical grid was necessary to manage the connection of a massive number of users and appliances without failing.

From the grid to the house, now even residential buildings are “smart”, i.e. with integrated computerized systems that manage the heating, the security of doors and windows and where appliances communicate with each other to give an efficient performance. The internet of things is already very much present in Korean households.

Even in the education field, the Government has been pursuing the development of smart education policies where the use of smartphones and tablet computers will

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<sup>85</sup> Samsung Electronics (2020), *A Fifty Year Journey Toward a Sustainable Future*, Sustainability Report 2019.

<sup>86</sup> Kaye L. (2011), *Pushing The Low Carbon Boundaries: South Korea's Smart Grid Initiative*, The Guardian, 5 Sep 2011.

become a source of value added for students in learning<sup>87</sup>. For instance, by using digital textbooks instead of printed ones, there will be a reduction in paper use and in economic costs as E-books are usually less expensive than paperbacks.

Even during the terrible emergency of the CoViD-19 pandemic, the country adopted the most technologically advanced solutions to fight the problem. South Korea has developed customized smartphone's applications that are specifically dedicated to update citizens in case of new safety alerts. To prevent further spreading of cases, location data from patients tested positive are used to highlight the parts of the city maps where this person has been. Therefore people that have crossed paths with someone infected can ask to be tested. CoViD-19 tests are very quick and done in a "drive through" fashion where people just pull over with their cars by one of the many test centers and after getting a swab stick test, they can drive home. Tested people will get a text from the Government if they are negative or a call if they are positive<sup>88</sup>.

Authorities also employ geo-localization technologies to track people that are ordered to stay home. If positive patients go out with their phones, authorities are immediately alerted and if they go outside without their phones, they can still incur into a fine or even be arrested<sup>89</sup>.

Of course, no matter how great this technology is, only time and patience will help the country to overcome this pandemic. However, we can still say that the prompt help given by sophisticated internet technologies has had a strong impact in facing this difficult situation.

South Korea has the invaluable resource of technology to obtain a competitive advantage that could make Hallyu's influence stronger for the years to come. Remaining ahead of the competition in matter of innovation could be the key for the sustainability of the Korean Wave.

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<sup>87</sup> Leem J., Sung E. (2019), *Teachers' Beliefs And Technology Acceptance Concerning Smart Mobile Devices For SMART Education In South Korea*, British Journal of Educational Technology, Vol. 50 No. 2, pp.601-613.

<sup>88</sup> Bicker L. (2020), *Coronavirus In South Korea: How 'Trace, Test And Treat' May Be Saving Live*, BBC News, 12 Mar 2020.

<sup>89</sup> The Economist (2020), *Countries Are Using Apps And Data Networks To Keep Tabs On The Pandemic*, The Economist Website, 26 Mar 2020.

## Conclusions

The Hallyu phenomenon and the appreciation of the Korean culture in other societies, especially the most developed ones, is probably what tells us that South Korea has definitely completed its transition from poor to rich country.

Now that we went through its origin and consequences, we can say that the Korean Wave is the sweet result of a process of change and growth that has taken little time but an immense effort.

In order for it to happen the Korean country had to revolutionize its industry, its law, its economy and most importantly its society. For adjusting production is easy, but people's mentalities and values have a sticky effect on modes of life.

Perceptions and beliefs are difficult to change but, nonetheless, South Korean people have adapted their lifestyles quickly enough to accommodate a process of innovation that has brought many opportunities for their country.

So if now South Korea is a rich nation, has Hallyu really stopped?

No, but it is changing. No cultural phenomenon remains stable over a long period of time and the same is happening for the Korean Wave. The main indicator of this modification is the rejection from East and Southeast Asian countries and the newly found appreciation from Western markets. Chinese children that watched K-dramas on television in the 90s are now adults and therefore used to finding Korean products in any store, but for American people this is a new situation.

Furthermore, a phenomenon can be considered fully finished when its saturation does not allow any more possibilities of growth and this is not the case for the Wave.

In fact, despite Hallyu's great expansion, there are still people that do not know that Samsung is Korean. Just like expressed in chapter five, South Korea still has some strengths to exploit (for example, its advanced technology) and some weaknesses to improve (such as its environmental effort).

More opportunities of expanding the Hallyu are apparent from people's still small knowledge of it in the West. As mentioned earlier, there are many different aspects that together contribute to the Korean Wave impact on Western countries, but it must also be specified that for an external onlooker the picture might not be completely clear. Just because some people own a Hyundai car, it does not mean they also listen to Korean music or that they have tried the local Korean restaurant.

All of these instances tell us that it would be incorrect to say that Hallyu is over, maybe it has slowed down and maybe it is not so flourishing in Asian markets anymore, but for what concern America and Europe, this phenomenon is still doing well.

Perpetual growth is marketers and entrepreneurs' dream but it is hardly possible in real life. Differentiation and innovations are instead keys for long-term success and South Korea still has a bright future ahead.



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