

Patrick Messerlin and Jimmyn Parc

THE EFFECT OF SCREEN QUOTAS AND SUBSIDY REGIME ON CULTURAL INDUSTRY: A CASE STUDY OF FRENCH AND KOREAN FILM INDUSTRIES¹

ABSTRACT

There are voices in France advocating for a Korean-type screen quota system, seen as a key ingredient in the success of the Korean film industry. At the same time, there are calls in Korea for a French-type subsidy regime to be implemented as a way to achieve a further take-off. This paper shows that the Korean screen quota has little correlation with Korea's success. For the French case, its huge subsidies have had no impact on improving the attractiveness of French movies domestically. The paper concludes by suggesting that an in-depth analysis of the policies pursued by the two countries is crucial toward avoiding a too costly trial-and-error process when designing policies related to cultural industries and culture.

Key Words: film industry, film industry policy, cultural industry, screen quotas, subsidy regime, France, Korea

Patrick Messerlin
Sciences-Po Paris, France

Jimmyn Parc
Sciences-Po Paris, France and Seoul National University, Korea

Correspondence: Jimmyn Parc
27, rue Saint-Guillaume 75337 Paris cedex 07, France
E-mail: jimmynparc@gmail.com

¹This paper is based on a conference proceedings paper, see Messerlin and Parc (2014).

INTRODUCTION

During the height of its golden era, French film studios dominated the world in the early 1900s. In the domestic markets too, their presence was very strong in contrast to the the films from Hollywood. Crucially, such a success was achieved with very little state support. In recent decades though the situation has changed greatly. French films have steadily lost their market share to their American competitors. In order to protect and promote the film industry, the French government has steadily increased subsidies since the 1980s (Dale, 1997).

In Korea the situation is somewhat different. The government there has struggled to promote the film industry through various policies since its liberation from Japan in 1945. However, since the late 1990s, Korean films have become internationally competitive and one of the leading products of the Korean Wave. This has contributed to a new hip identity and the emergence of Korea as Asia's "cultural powerhouse" (Chua and Iwabuchi, 2008). One notable aspect which is considered by some observers to have had an effect on boosting the film industry is the intensified screen quota system (Mesmer, 2013).

The old saying of "the grass is always greener on the other side of the fence" seems tailor-made for the Korean and French film industries. There are, in the French film industry, supporters for the re-introduction of a screen quota as they see this as decisive instrument in the succces of Korea's film industry. There are also voices in the Korean film sector that believe a French-type subsidy scheme is needed in order to achieve a further take-off for their industry. In this context, a comparative study on the policies regarding the two countries would be meaningful. The policies and history of the French and Korean film sectors have been surprisingly similar until the mid-1990s. Though, the two industries have gone on very different paths since the late 1990s—with remarkable success in Korea and depressing stagnation in France.

This paper provides two key results, based on robust evidence over a long period of time (decades). On the one hand, the screen quota system is not sufficient to explain the recent success of the Korean film industry. On the other, the French subsidy regime has been unable to achieve its primary goal, that is, to increase the "attractiveness" (*rayonnement*) of its film industry at home. In short, the grass is not always greener on the other side. This result has an important corollary. A clearer understanding of each other's policies is a crucial step toward widening perspectives. It can also help other countries to avoid costly trial and error processes when designing their policies. By showing how much the French and

Korean policymakers could learn from each other's past mistakes, this paper seeks to generate more academic interest in understanding each other's film industry, and beyond that, to have a broader dialogue on all aspects of "culture."

This article consists of three parts. The first section reviews the current interest in France for supporting a screen quota and conducts an in-depth analysis of Korea's screen quota system. The second part is dedicated to analyzing French subsidies and their impact on its film industry in order to provide important implications for the Korean film industry that is becoming more interested in subsidies. This paper concludes that pro-competition measures are more important toward enhancing the competitiveness of the film industry rather than enforcing protective measures, and it suggests areas for possible further research.

THE REAL EFFECT OF THE SCREEN QUOTA: LESSONS FROM KOREA

The Korean screen quota system has a history long enough to provide a good sense of its true impact on the film industry. It was first introduced in 1966, but its existence was rather nominal. In fact, many argue that screen quotas were only truly implemented from 1993 (Lee and Bae, 2004; Pager, 2011; Parc, 2014a, 2014b). Superficially, it would appear that the screen quota system and the success of the Korean film industry are correlated. However, the analysis in this section shows that it had little impact on the success of the Korean film industry, particularly, since the late 1990s. This instrument was also used in France during the 1950s, but it was quickly abandoned by the industry, largely because a much more palatable instrument—subsidies—was granted to the industry's "vested interests." However, there are voices in France today asking for the reintroduction of the screen quota system (Mesmer, 2013).

A demand for screen quotas in France

Throughout the two decades preceding the First World War, the French film industry enjoyed a very strong position in the international film market, comparable with Hollywood today. Around 70 percent of films distributed worldwide came from Parisian studios (Hayward, 2005). This situation deteriorated sharply in the 1920s due to the combined outcome of limited investments as well as a distrust in adopting new technologies. Particularly, the emergence of a much larger US film market supported by economies of scale which created lower fixed costs and furthered cultural diversity, aggravated greatly the

weakening position of the French film industry. This fall led the French government to impose a quantity-based import quota on foreign films in 1928: a maximum of seven foreign films could be imported for one French film produced.

The early 1930s witnessed a bright spell, but only because of two short-lived circumstances. On the supply side, the rapid emergence of sound movies created a language barrier for a few years before dubbing techniques became the routine. While on the demand side, the Great Depression forced French movie theaters to cut seat prices by half. Yet, this pause did not last long, and in the late 1930s, additional protection was granted under the form of a quota to restrict the number of foreign films which could be dubbed; 150 foreign movies among roughly 450 films exhibited per year.

In aftermath of the Second World Ward, France urgently required US aid in order to rebuild its economy. The conditions for this aid set by the United States was the elimination of the import quota on foreign films. As its replacement, a screen quota system—four weeks reserved for French movies out of every quarter—was introduced. Nobody objected strongly then. Yet, in 1948, the vested interests of the French film industry, manipulated by the Communist Party who had just been ejected from the national government, engineered a number of well-publicized demonstrations that lead to the re-introduction of the import quota system on dubbed films from the United States: 120 films per year, and a strengthening of screen quotas: five weeks were reserved for French movies.

Soon though, the film industry quickly lost interest in screen quotas for three reasons. First, the French film industry was in such a poor state that it could not produce enough movies to meet the demand of movie theaters if the screen quota regime was strictly enforced. Second, US movies distributed by the French subsidiaries of Hollywood studios were considered as French. Last but not least, protection came under the more palatable form of subsidies: vested interests quickly realized that such an instrument was easier to manipulate, to expand, and to capture in a discriminatory way (see the subsidy section).

Yet, the ghosts of the screen quotas were still haunting the French film industry. First, a screen quota system continues to exist in the broadcasting sector. Under pressure from the French government, the so-called “television without borders” EU Directive (EU law) of 1986 imposed a regulation that 40 percent of movies and TV series broadcasted should be of local origin. This provision is loosely enforced in most EU Member States, but it is strictly applied in France. However, it is becoming almost entirely obsolete due to

the emergence of the Internet in the 2000s which allows French viewers to watch their own mix of French and non-French movies and TV dramas at home.

Second, in August 2013, one of the main French daily newspapers claimed that the Korean film industry's share of the domestic market dropped significantly as a result of the screen quota cut in 2006 (Mesmer, 2013). Their hasty conclusion echoed an old view in the French film industry on the dangers of lifting protectionist measures (Korman, 2007). Third, in September 2014, a report by Francophonie, the international organization of French speaking countries, recommended the introduction of screen quotas for French-speaking movies across thirty-seven French-speaking countries (Attali, 2014).²

The screen quota in Korea: the Maginot Line³

Korea adopted the screen quota system in 1966. However, some observers argue that it was not seriously implemented until 1993 (Coalition for Diversity in Moving Images, 2000; Lee and Bae, 2004; Pager, 2011). Until 1986, the Korean government relied on import quotas in order to protect and promote the Korean film industry. However, once the import quota regime was abolished following the 1986 Korea-US Film Agreement, the screen quota system emerged as the only protective measure for the Korean film industry. One important aspect of the Korea-US Film Agreement was that it allowed Hollywood studios to distribute directly their films in Korea. This injected more competition in the domestic film market and dented the profits of Korean importers and distributors of foreign films. It also reduced, to a limited extent, the domestic market share of Korean films (see Figure 1).

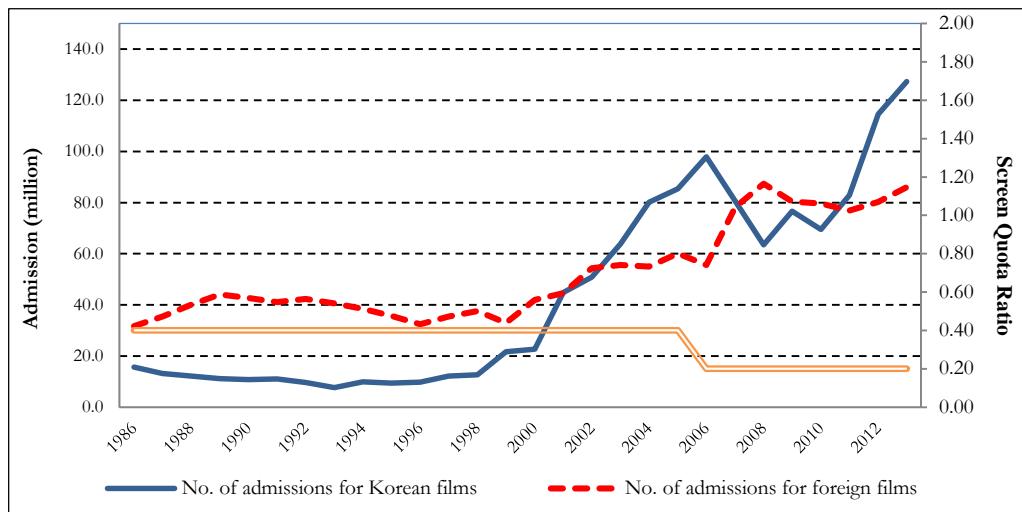
While preparing this agreement, the Korean government set the mandatory number of days for screening Korean films to 146 days.⁴ When the market share of Korean films reached the very bottom in 1993 (15.9 percent), the government decided to enforce the screen quota system more strictly. However, the Korean film industry's market share did not improve very much until the late 1990s. It was only during the period of 1998-2000 that the Korean film industry started to blossom, showing an impressive success rate in the domestic market. Over the last decade, Korean films have enjoyed an average market share of 54 percent, with record peaks of 60-65 percent.

² In Korea, the nationality of films depends generally on that of the director. In France, it depends on a complicated set of criteria (nationality of and language used by the producer, studio, director, actors, technical staff, and location). The figure of thirty-seven "francophone" countries is highly debatable (Messerlin, 2014b).

³ This section is based on Parc (2014b) which provides all the detailed explanations.

⁴ The screen quotas set the mandatory screening days for Korean films as 121 days in 1973. During the years 1981-1985, the mandatory days became 165 days per year. However, the admission number of Korean film decreased despite these efforts. For further details, see Parc (2014a, 2014b).

Figure 1. The screen quota irrelevance, 1986 to 2013



Note: based on authors' calculations.

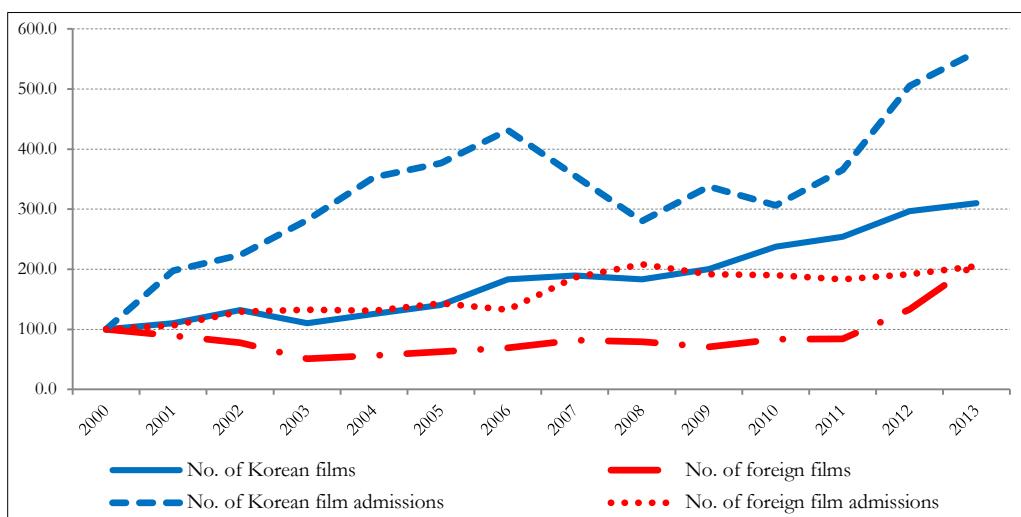
Data sources: Koreanfilm.org (for 1986-2002), Korean Film Commission (various issues) (for 1999-2002), and Korea Film Council (various issues) (for 1998-2013).

In fact, looking at the Korean film industry's trend from 1986 to 2013 does not suggest any noticeable impact from the screen quota system on the performance of its films. First, although screen quotas were set at 146 days in July 1985, the next decade witnessed a very low number of admissions for Korean films (see Figure 1). If screen quotas had a protective and promoting impact on domestic films then the number of film admissions should have increased under such a system. Second, some attributed the surprising increase of Korean film admissions between 1999 and the early 2000s as evidence of the positive impact from screen quotas. Actually, during these years, the admissions for foreign films also increased significantly; in fact, the total market size increased as a whole (for more details see Parc [2014a, 2014b]). If the screen quotas were the key factor for the increase in Korean film admissions, then the numbers for foreign films should have remained the same or even declined.

These facts leave the screen quota cut in 2006—from 146 days to 73 days—as the last case to analyze. Figure 2 shows the situation before and after 2006, both in terms of number of films produced and admission numbers for Korean and foreign films in the domestic market. The number of admissions for Korean movies declined across the period for 2007-2010 before catching up strongly after 2010. As mentioned before, this trend has

been interpreted as proof of the negative impact from the screen quota cut on the Korean film industry. However, this interpretation is too hasty for two reasons (see Figure 2). First, if this new environment was perceived as a threat by the Korean film producers, the screen quota cut should have triggered a decrease in the number of films released after 2006. Instead, the number of Korean movies continued on its previous growth trend: in other words, it was business as usual from the supply side (Parc, 2014b).

Figure 2. A closer look at the 2006: turning point



Source: Parc (2014b).

Second, if the screen quota cut was detrimental to the Korean film industry, then the admissions for foreign movies should have increased. However, the admissions for foreign films follows a modest trend from 2000 up to present. This happened despite the increase in the number of foreign films since 2011. In short, the few years after the screen quota cut did not witness either a decrease in Korean films released or in Korean audiences rushing to foreign movies. These two observations do not support the argument that the 2006 screen quota cut was a noticeable and decisive cause for the decline in admissions of Korean movies (Parc, 2014b).

How can this pattern then be explained? Attention here should focus on the pro-competition changes in the Korean film market after 1986 (Parc, 2014b). The 1990s and early 2000s have witnessed a profound restructuring of the Korean film industry. To

overcome losses caused with the direct distribution of films by the Hollywood studios, Korean firms began to reform their structures and diversify asset portfolios. They also began to acquire individual movie theaters and form “theater franchises” so that they would have more bargaining power against the Hollywood distributors. In the 1990s, a number of large Korean companies also redirected their investment toward domestic film productions due to high failure rate they had experienced with Hollywood film projects. Crucially, these efforts helped to transform the structure of these Korean companies, introducing a vertically integrated system—financing, production, exhibition, and distribution (Lee, 2005; Shim, 2006).

Furthermore, the decision by Korea to lift the ban on Japanese cultural goods in the late 1990s and early 2000s induced the Korean film industry to enhance its diversity and the originality of its productions (Pager, 2011). Above all, the Korean film industry benefited from abundant investment which lead to considerable success throughout the early 2000s.. However, the screen quota cut in 2006 created an uncertain and unpredictable business environment. Therefore with the decline in business investment, the quality of Korean blockbusters declined somewhat. Furthermore, the growing sophisticated tastes of the Korean audience required alternative or new business strategies within the industry which took a few years to develop (Parc, 2014b).

THE REAL EFFECTS OF SUBSIDIES: LESSONS FROM FRANCE

Subsidies provided to the French cinema have an extensive history. The period is long enough—at least 40 years—to provide a good sense as to whether it is achieving its official goal, specifically the attractiveness of French culture. Although subsidies increased dramatically during the 2000s, they could not prevent a decline in the attractiveness of French movies in the domestic market. In 1948, France introduced a seat tax to fund subsidies for its film industry. This was a process that Korea would also benchmark in 2007. Interestingly, the French seat tax was only supposed to last a few years but instead has survived to the present day. A similar outcome emerged in Korea where at the end of 2014, the seat tax was prolonged to 2021. This case shows that France’s experience provides a strong warning to those who would advocate for its further continuation in Korea.

A demand for subsidies in Korea

Initially, subsidies have been seen in Korea as a way to promote film quality and to improve the “cultural” content of the film industry (Kim, 2000). However, recently, support for subsidies has shifted to more economic reasons—namely, the potential of cultural sectors as promising industries. The current subsidy system in Korea can be distinguished into three different groups: government subsidies, public subsidies, and tax exemptions.

As documented by Kim (2013), “government” subsidies increased considerably at the end of the 1990s. However, there are two major differences with the French case: first, most of the Korean government’s subsidies have been utilized to enhance infrastructure or distribution channels (Pager, 2011); second, the amount of these subsidies is still extremely low when compared to France. It is roughly four percent of the total French subsidies (Messerlin, 2014a; Parc, 2014b).

“Public” subsidies are those funded mostly from the seat tax, three percent per admission ticket. Following its introduction in 2007, the seat tax was initially to have only lasted until December 2014, however the month before, the National Assembly decided to extend it until 2021—similar to its prologation in France in 1954. This seat tax system has many loopholes. For instance, it is not charged on movie theaters that show animation, short films, or artistic films as recognized by KOFIC for more than 60 percent a year. In addition, the amount is also lower than the French subsidies: roughly eight percent of the total French subsidies.

Currently, Korean tax exemptions are only eligible for small and medium sized enterprises (SMEs). Conditions for eligibility are very strict so that only 15.9 percent of SMEs can actually benefit from this scheme (Ministry of Culture, Sports and Tourism, 2010). However, since these companies are mostly small and medium sized, it is hard to argue that the amount of tax exemptions benefitted them significantly.

Altogether, Korean film subsidies (“government” and “public”) amount to an estimated USD106 million (roughly €82 million) in 2011 whereas the French subsidies to the cinema sector alone comes up to €676 million for the same year. Given that several Korean organizations and scholars have been seeking to increase the tax exemption regime for the film industry (Kim, 2000; Do, Park, and Kim, 2005; Ministry of Culture, Sports and Tourism, 2010), it is particularly interesting here to assess the impact—if any—of these massive French subsidies on the attractiveness of its films domestically.

The French film subsidies: *A bout de souffle*⁵

The French film policy relies on two pillars. The first is a tight net of regulations which have established a set of rigidly inter-dependent “feudal monopolies.” For instance, movie theaters have a transitory collective monopoly since films under the French system must be exhibited in movie theaters for at least the first four months after their release. After this period, there is a mandatory release sequence for screening films depending on the type of media. In brief, this is the sequence: following the theatrical release of a film, it can be released first on DVD or video only after the first four months. After 10 months, it can be shown on premium subscription television film channels such as Canal+. After 12 months, it can be shown on other pay television film channels. After 30 months, it can be broadcasted on regular pay TV channels and freeview TV. Then, after 36 months, the film can be on subscription-based streaming media services such as Amazon Prime and Netflix. Finally, after 48 months, the film can be on free streaming services.⁶

The second pillar is subsidies. This oldest pillar dates back to 1948, as mentioned in the previous section. The birth of the French subsidy system has striking similarities with Korea: subsidies were based on a specially created tax on movie theaters seats, and the system was initially granted for a limited time (1948-1954). However, over the years, vested interests have been able to gather increasingly massive subsidies. As a result of this 40 years-long process, in 2011, the French film industry has received a staggering €476 million in public subsidies. Among them, at least €200 million was related to the special unemployment regime for part-time workers in the audiovisual sector (Cour des Comptes, 2012, 2014; Inspections Générales des Finances et de la Culture, 2013).

Another way to express this situation is that the “subsidy rate”—total subsidies divided by the value created by the French film industry—amounts to a staggering 32 percent, at least, of the value added generated by the French cinema sector—roughly 10 times the subsidy rate in Korea.⁷ Such a staggering figure raises a crucial question: has such a huge financial support improved the “attractiveness” of French films domestically, as claimed by the vested interests? Over the last couple of years, an increased number of insiders, such as active and well-known French film producers, have stated that it is not the

⁵ This section is based on Messerlin (2014a) which provides further detailed explanations. An alternative estimate, which takes into account the complex links between the cinema and TV industries, suggests a subsidy rate of 58 percent.

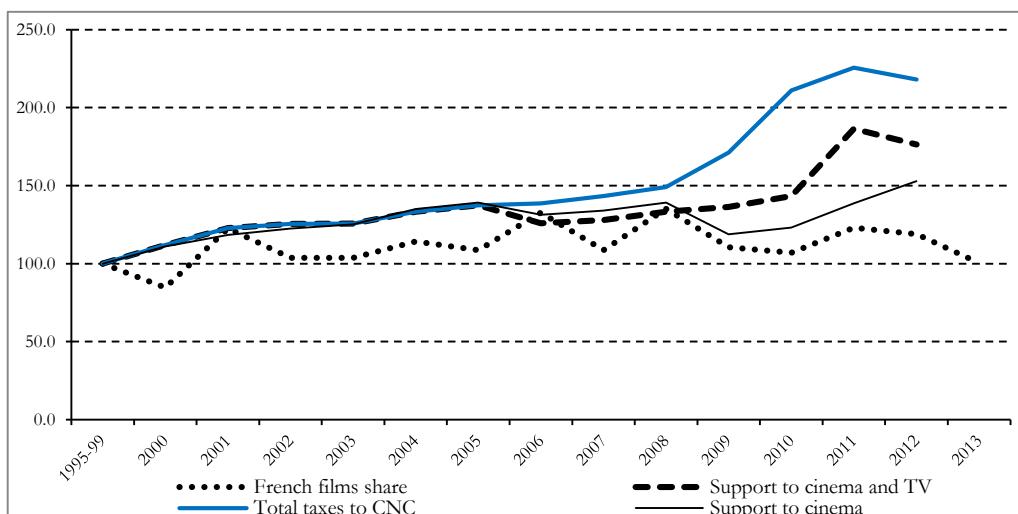
⁶ Please refer to Legifrance (2009) for further information.

⁷ It should be stressed that this is a serious underestimate since it relies on very conservative assumptions.

case (Maraval, 2011). Answering this question in a rigorous manner requires two sets of data.

The first is an indicator for measuring the “attractiveness” of French movies. The simplest indicator in this regard is the admission numbers for French and foreign films (Centre National du Cinéma et de l’image animée [CNC], various issues).⁸ Figure 3 shows that the index (100 being the years 1995-1999) of the share of admissions for French movies domestically trails close to 100 with four peaks (2001, 2006, 2008, and 2011) reflecting a handful of “hits.”⁹ The second indicator is the evolution of the subsidy amount granted to the French film sector. As the subsidies scheme has become extremely complicated and opaque over these four decades (Cour des Comptes, 2012, 2014), three possible alternative estimates for the level of subsidies are provided as follows.

Figure 3. An increasing gap: Stagnant attractiveness, skyrocketing subsidies



Unit: Indexes (1995-1999=100).

Sources: Centre National de la Cinématographie (Various issues), Ministère de la Culture et de la Communication (2013), and Cour des Comptes (2012). Author’s computations.

⁸ In order to eliminate biases which could be generated by picking a good or a bad year as a reference point, the average of the years 1995-1999 has been used in order to get a relatively stable anchor for the calculations.

⁹ These hits are: *Taxi 2* with 10.24 million admissions in 2001, *Astérix et Obélix: Mission Cléopâtre* with 14.56 million admissions in 2002, *Les Bronzés 3* with 10.22 million admissions in 2006, *Bienvenue chez les Ch'tis* with 20.36 million admissions in 2009, and *Intouchables* with 16.58 million admissions in 2011. Only one of these hits (*Intouchables*) has received positive reviews around the world.

The lowest estimate is the support to film, *soutien au cinéma et vidéo* in French, of the *Fonds de soutien* (Ministère de la Culture et de la Communication, 2013), The medium estimate is the support to film and TV, basically the sum of *soutien au cinéma et vidéo* and *soutien à l'audiovisuel* of the *Fonds de Soutien* (Ministère de la Culture et de la Communication, 2013), and the highest estimate is the total taxes to CNC, *principales taxes affectées au CNC* (Cour des Comptes, 2012: 25). Using estimates aggregating films and TV channels makes sense in the French context since, as explained above, broadcasting firms are the “cash-cows” of the film industry. The crucial point is that, though different, all the estimates, in current euros, of the subsidies provide the same key result: the level of subsidies has skyrocketed over this period by 50 percent to more than 100 percent; figures in constant euros do not change notably the picture.

Figure 3 gives, thus, a clear answer to the question raised above: since 2000, there has been an increasingly wide divergence between the increase in subsidies and the attractiveness of French films. In short, there is little doubt that the French film policy has failed to have a positive impact on the attractiveness of French films since the dawn of the twentieth century. This conclusion is contrary to the official statements from the French government that its policies have been successful because it has helped to increase the number of French films produced (Cour des Comptes 2014, particularly in Chapter II). The reality though is that the number of movies produced is not an indicator of success and it is easy to see how weak this indicator can be. It would still hold true even if nobody went to movie theatres at all.¹⁰

This conclusion deserves two final remarks. First, supporters of the French film policy argue that this policy may have had an indirect impact—favoring “cultural diversity,” or in less coded words, reducing the share of US movies in France.¹¹ Evidence shows that this is not the case: the erosion of admission shares for US movies in France since 2000 is observed not only in France, but also in other EU countries for the same period.

Second, supporters of the French film policy also argue that it has allowed the creation of a bigger film industry in France than in other countries of a similar size. This assertion is far from correct. The value of film activities that are “made in France” amounts

¹⁰ In fact, it is well known that a notable share of French movies has never been exhibited in the movie theaters (Cour des Comptes, 2012). This means that the increase in the number of films is to an unknown extent “virtual.”

¹¹ The French “benevolence” to cultural diversity does not go very far. Non-US/non-French movies are subjected to the same seat tax without benefiting from French subsidies—such as the Hollywood blockbusters. Their increasing market share means, thus, that they are increasingly contributing to the funding of the subsidies granted to French movies.

to roughly €2.7 billion. However, a substantial part of these activities is due to foreign operators, notably foreign investors contributing to French film production as well as foreign films. In this case, the exhibition of foreign movies in France could hardly be considered as part and parcel of the French film industry. If one were to eliminate these foreign-led activities, the value of the “truly” French film industry amounts to roughly €1.7 billion. These two figures should be compared to the size of the Korean film industry which is estimated to be roughly US\$1.4 billion, that is, €1.1 billion (for more details see Parc [2014b]). In short, in 2011, the Korean film industry is already two-thirds of the “truly” French film industry, and continues to grow at a faster rate.

CONCLUSIONS

Many argue that movies are not like other commodity goods, such as smartphones or television sets. Rather they stress that they are part of culture and art and should therefore be treated differently in the global trade regime. In the reality, however, the general criteria for a measure of success in the film industry is the market share which is often utilized with other commodity goods. Therefore, the film industry should be analyzed from a broader perspective, rather than merely considering its artistic or cultural merits.¹²

This paper focuses on Korea’s screen quota system and France’s subsidies by using economic, business, and historical views. Such an approach is very meaningful, since the film sector is becoming a very complex industry which makes it harder to conduct an in-depth analysis of the film industry solely with one principle. France and Korea can both learn from one another. The Korean case shows that a screen quota does not work, and that other factors such as the business activities of private companies are more critical toward the healthy growth of the film industry. Meanwhile, the French case demonstrates how abundant subsidies are unable to contribute to the attractiveness of the national culture they are supposed to promote.

This is because government’s “promotive and/or protective” policy does not offer both incentives and stimulation at the same time. Business agents such as firms, including filmmakers, actors and actresses, should contribute to produce quality products, i.e., good movies which must be better than their competitors. Both incentives and stimulations are crucial toward achieving this. In the Korean case, its film producers did not have sufficient

¹² This is hardly a specificity of the film sector. Since at least the 15th century, a host of European famous painters, musicians, and writers—from Rubens to Striggio to Goethe—have become rich and/or held key official positions (such as Ambassadors) in a very pro-competition environment.

incentives to produce decent films due to ineffective and superficial government policies which actually distorted the film industry and were taken advantage of by the agents it was meant to help.

In contrast, the French case demonstrates that too many incentives without any stimulation can harm the industry as well. Agents prefer a monopolistic environment in which they can maximize their profits and therefore they become indifferent to the development of their industry. This creates a complacent attitude. Too much protection—too abundant subsidies—fails to encourage the drive to be more competitive in the world market. Thus, these two cases in Korea and France strongly support the importance of pro-competitive measures that can enhance the competitiveness of these industries.

The most important message that comes from Korea is that an energetic culture can be attractive and flourish in our modern world. Contemporary Internet-based technologies are more suited to “medium-size” economic and cultural powers, such as Korea and France. Indeed, this dialogue between France and Korea should go beyond the specific case of the film industry and encompass other aspects of “culture.” It will be all the more beneficial because France and Korea share many “culture-related” similarities in this new world—not least that they have the same size in terms of language, a critical ingredient of culture—and the same pride in their culture.

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