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Bachelor Thesis title:

Entrepreneurship in Cultural Industries in East Asia

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S t a t e m e n t

I declare that this bachelor thesis on the topic
„Entrepreneurship in the cultural industries of Southeast Asia “
was created individually using literature and information, to which I refer.

In Prague May 25th 2015

Podpis

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Abstract:

The aim of this thesis is to introduce to whomever it may concern the new socio-economical phenomenon Korea has brought to the global creative industry. The term Hallyu will be clarified in all its details and after understanding the whole meaning behind it, the reader will be fully aware of all circumstances concerning the main topic of this thesis – K-pop. The Korean entertainment industry is already very unique as it is on its own, but it is even more worth looking at when comparing to the global music industry in general. A thorough inside look into K-pop's globalization strategy, its venture-like approach of the creative industry as well as curiosities and confrontational issues around it will be explained in here.

Key words: Hallyu, K-pop, globalization, music industry

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1. Introduction

Psy's 'Gangnam Style' might have thrown the South Korean music market into the global cognizance but to industry observers it has long been a market of particular interest. Korea was ranked in 2012 as World's 11th largest record market. Also being the first major music industry to pass the 50% digital mark – in 2006 – South Korea has been held up both as a digital forerunner and as a canary in the mine for the global music industry.

The aim of this thesis is to introduce to whomever it may concern the new socio-economical phenomenon and the pioneering business approaches on entertainment production Korea has brought to the global creative industry.

2. Theoretical Section

2.1. Concept of the creative economy

A simple but full explanatory and complex definition of the term “creativity” has yet to be found, as there is unfortunately no description of this phenomenon, which is able to embrace all of its diverse dimensions and depths.

However, in psychology, in the field where individual creativity has been most widely studied, there is no agreement as to whether creativity is an attribute of people or a process by which original ideas are generated. Nevertheless, the characteristics of creativity in different areas of human endeavor can at least be articulated. For example, it can be suggested that:

- Artistic creativity comprises from imaginations and the ability to generate novel ideas and innovative methods, techniques and ways of interpreting the world in the form of text, sound and image
- Scientific creativity includes inquisitiveness and enthusiasm to experiment and make new connections in problem resolving
- Economic creativity is a vigorous process leading towards advance and innovation in technology, marketing and business approaches and practices etc., It is closely linked to attainment competitive advantages.

Source: KEA European Affairs (2006:42)

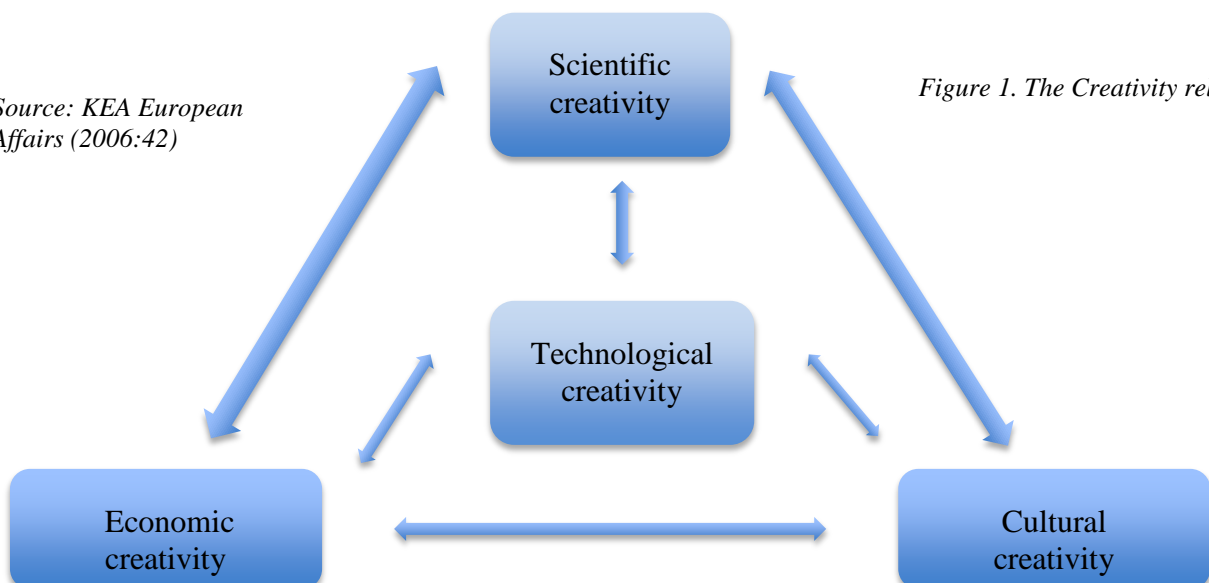


Figure 1. The Creativity relationship

As seen on the figure 1.1, all of the above mentioned types of creativity are to a greater or smaller extent engaged to technological ingenuity and are fully interrelated with each other. No matter from which perspective is creativity interpreted; there is no doubt that by definition, it is a crucial component in outlining the range and opportune of the creative industries and the creative economy in general.

There is also another alternative way of how creativity can be approached from. And that is cogitating it as a quantifiable social process. From the economic perception, however, a relationship between creativity and socioeconomic expansion is not clearly evident.

2.1.1. The 5Cs model

The 5Cs model is the outline of the creativity index. Representatives have been debating about the possibility of establishing a particular European Creativity Index, which will apply to countries of the European Union; the idea was formed upon already existing indices and continentally proposes a model with 32 culture-related indicators clustered in five pillars of ingenuity:

- Human capital
- Technology
- The institutional environment
- The social environment
- Openness and diversity

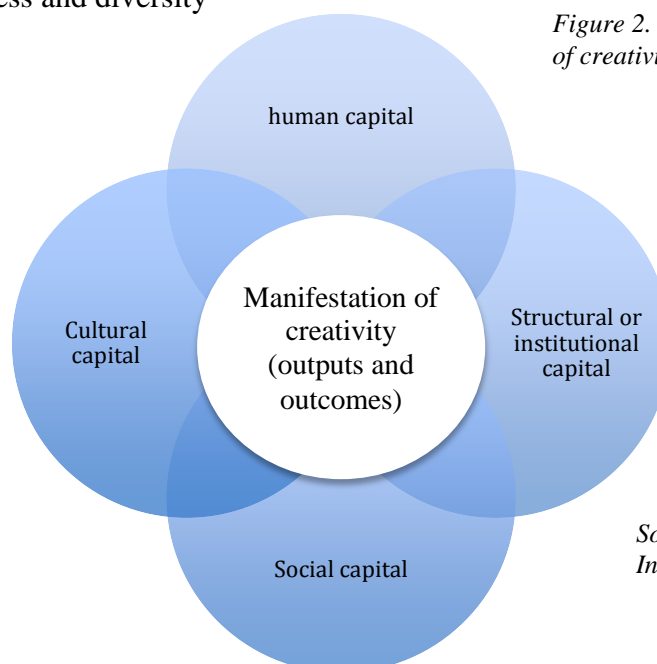


Figure 2. Interplay of the 5Cs: Outcomes of creativity and 4 capitals

Source: A study of Creativity Index, 2005

The objective of such an index would be to underscore the potential of incorporating culture-based indicators in existing frameworks correlated to creativity, innovation and socio-economic development. This will also bring us a view to measuring the creative performance of EU member states and aiding policymaking.

Creativity can also be outlined as a procedure by which ideas are generated, connected and transformed into new items/thoughts that are recognized and valued.

2.1.2. UNCTAD definition of the creative industries

The creative industries:

- *are the cycles of creation, production and distribution of goods and services that use creativity and intellectual capital as primary inputs*
- *constitute a set of knowledge-based activities, focused on but not limited to arts, potentially generating revenues from trade and intellectual property rights*
- *comprise tangible products and intangible intellectual or artistic services with creative content, economic value and market objectives*
- *stand at the crossroads of the artisan, services and industrial sectors*
- *constitute a new dynamic sector in world trade¹*

Heritage:

Cultural heritage is defined as the root, the origin of every form of arts known. It is the spirit, the powerhouse each and every cultural and creative industry. Being the essence brings the fact of also being the starting point of this classification. This group is divided into two subcategories:

- Traditional cultural expressions: art crafts, festivals and celebrations
- Cultural sides: archaeological sites, museums, libraries, exhibitions etc.

¹ Brewka, Barbara. *Creative Economy*. [New York]: United Nations, 2008. Print.p.13

Arts:

This set comprises of creative industries built purely upon art and culture. Art is heritage, being splashed with a bucket of identity values, emotions and symbolic meanings. This group embraces these two large subdivisions:

- Visual arts: paintings, sculpture, photography and antiques
- Performing arts: live music, theatre, dance, opera, circus, puppetry, etc.

Functional creations

Media

Arts

Heritage

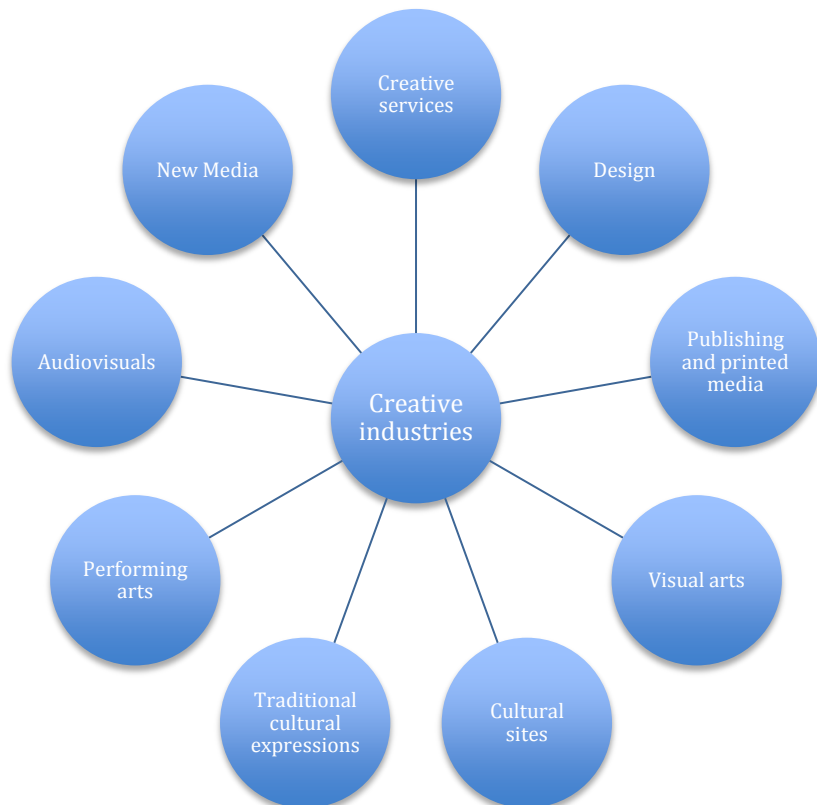


Figure 3. UNCTAD classification of creative industries
Source: UNCTAD

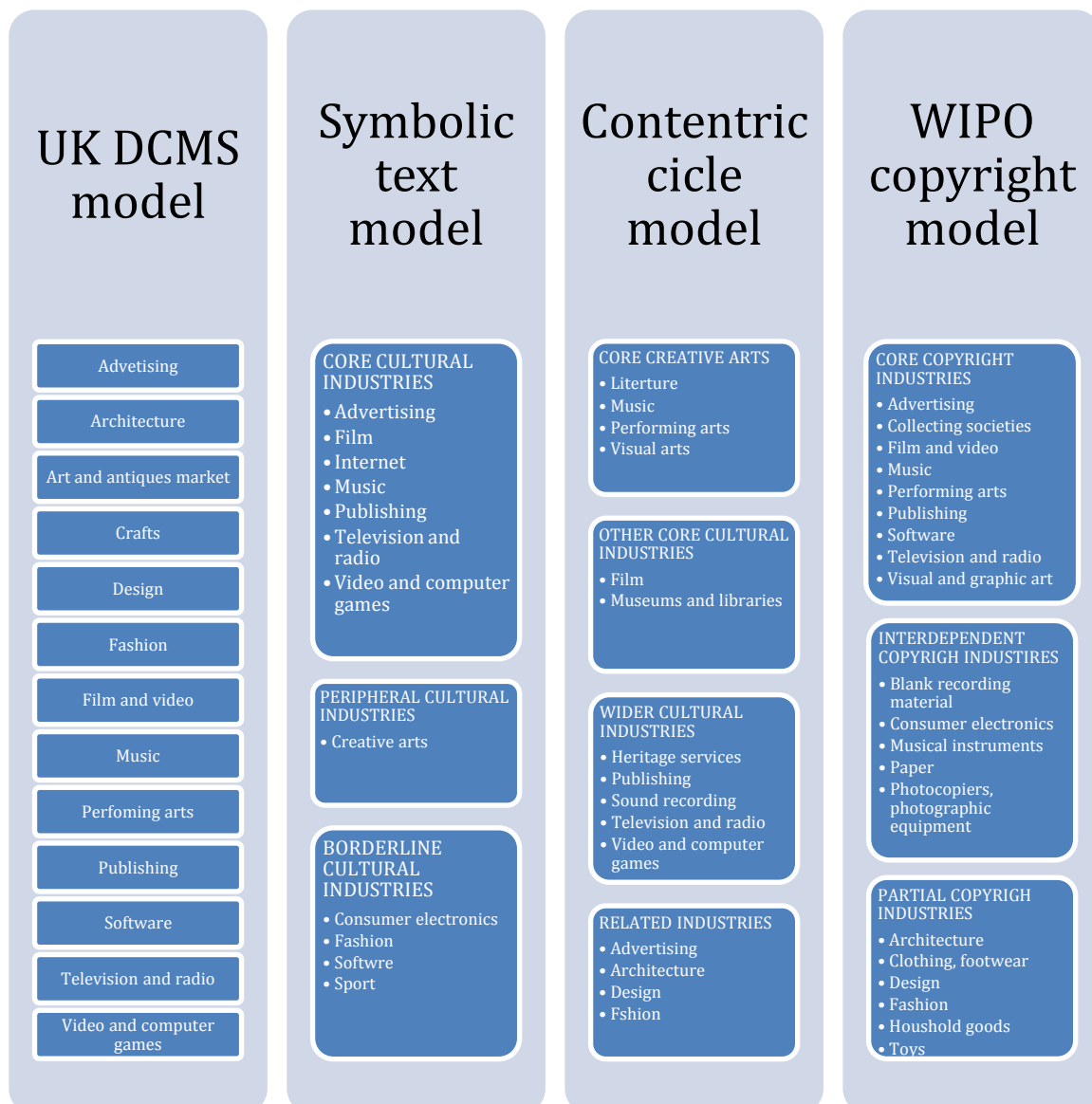
Media:

Media refers to communication channels through which information in all kinds of forms and shapes are disseminated to audiences. Media comprises of two subcategories generating creative content with the aim of interaction and communication with large addressees (“new media” is classified separately):

- Publishing and printed media: books, press and other publications
- Audiovisuals: film, television, radio and other broadcastings

- **Functional creations:** this group covers more demand-driven and services-oriented businesses producing goods and services with practical devotions. It is divided into the following subgroups:
 - Design: interior, graphic, fashion, jewelry, toys
 - New media: architectural, advertising, cultural and recreational, creative research and development, digital and other related creative services
 - Creative services: architectural, advertising, cultural and recreational, creative research and development, digital and other related creative services

2.1.3. Classification systems for the creative industries derived from different models



3. Practical Section

3.1. Hallyu alias the Korean Wave

Just like a tsunami, unexpected and ferocious. This phenomenon refers to a cultural process of Korean culture/ media products being by storm devotedly saluted by neighboring countries in East and South East Asia, now also by the rest of the world such as Europe, South and North America. From the wave of cultural globalization arisen a derivative, counter-tide of artistic regionalization: the so-called Hallyu, which literally signifies “Korean (Cultural) Wave/Current,” and was originally used by the Chinese media in the late 1990s. First Hallyu hit Japan, China, including Hong Kong and Taiwan following Vietnam, Singapore, Thailand, Malaysia and Indonesia. This unparalleled obsession over Korean culture has been spreading at a shocking pace, starting from content-based products such as movies, songs, and television dramas to cultural hardware meaning food, clothing, accessories, mobile phones, and make up trends.

A perfect example is a famed television drama named *Winter Sonata* (2002), which has been already broadcasted in thirteen different terrestrial and cable stations in Japan alone and watched by over two-thirds of the nation’s television families. When the male lead Young Jun Bae visited Japan in November 2003, about 4000 middle-aged female fans grouped the Narita International Airport paralyzing it for a few hours. In China, South Korean programs have become a fixed and cherished part of commercial networks, likewise cable stations and surprisingly even CCTV (China Central Television), a government-owned and controlled television network. The total broadcasting time of Korean programs has by far beaten all other foreign programs and films combined together.

The astonishing triumph of Korean television dramas is paralleled by equally robust demands for South Korean pop music, films, and media celebrities, which fuel the strong progression of Korea’s cultural industries. For example, in response to the sudden invasion of enthusiastic Hallyu fans from Japan, Taiwan, and China, savvy tourist companies have presented a selection of “Hallyu tour” packages, which comprise mainly of visiting celebrated drama sets, broadcasting stations, and live k-pop music concerts. It is reported that 257,000 Japanese

visitors came to South Korea in October 2004 alone.² The number of foreign tourists travelling to South Korea has by now increased dramatically (from 2.8 million in 2003 to 3.7 million in 2004).

Many people have been wondering about the socio-cultural and politico-economic context Hallyu arose from as well as about its overall effects in the aspect of a global overview. It has always been seen as an abstract effect resulting from an eclectic merge of domestic and international, economic and political as well as historical and contemporary influences. Now we now it is more of an outcome of the clash of two crosscurrents: the weakening trend of Japan's economic, political, and cultural leadership position in Asia, allowing not only Korea but also China to built up their cultural-based sector and second of all, the propagation of neoliberal policies leading to a higher level of local integration in both economy and culture. The following briefly summarizes the primary political and economic conditions from which Hallyu roared into life.

Japan had been the dominant powerhouse in all East and South Asia provinces in the areas of not only politics, economy and culture until the early 1990's when its influence has been continuously weakening since then. This was a result of a decade-long economic recession, which eroded the position Japan had gained during the post-WWII period of over forty years. Politically, the renaissance of ultra-rightwing politics already estranged affiliation with the neighboring countries. The ever-increasing anti- Japan mawkishness in the region permeates cultural domains as well. In compare to the wholehearted welcome that Japanese culture experiences from the Western world, an aggressively increasing level of resentment and lethargy toward Japan is transparently seen in both East and South East Asia. Consequently, even the most widespread Japanese cultural sensations and inventions such as karaoke, pop music, anime and manga are losing power in the unexpected birth of the Korean Wave.

The weakening role of Japan corresponds with the astonishing rise of China as a regional hegemon and world's superpower. China's growing process is attentively linked with the end of the Cold War, which lead to quickening of economic liberalization in the area. This lead to an epoch illustrated by merciless economic competition attributed to its deregulation,

² *USA Today*, Dec 9, 2004. http://www.usatoday.com/news/world/2004-12-09-korean-actor_x.htm (accessed on Sept 21, 2006.)

marketization, and liberalization practices.

The American or European ideas of contemporaneousness do not embody exemplars of East and South Asia. Similarly, the Japanese model of social organization and development has not received positive feedback or supporting confirmation by these societies, due to the nation's constant determination to fully embrace the Euro-American modernity understood as a disloyal behavior towards its own heritage.

There are three main, correlated reasons that justify South Korea as a strong opponent to its neighbors.

- First, the present-day paths of South Korea are often labeled as a form of “compressed modernity,” which expressively proves to its ability of jumping from an agricultural society to a high-tech information society in less than four decades.
- Second, the South Korean approach of progress characterizes the continuing importance of Confucian values to financial growing and governmental restructuring.
- And least but not last, Korea has been respectfully recognized for its accomplishment of having a high level of participatory democracy, advanced civil organizations, besides active labor associations after the phase of social turbulence throughout the military dictatorship. Many Asian countries look up to South Korea as its current communal formation is seen as a vigorous standard prizing overall public good, awakens in each individual communitarian life-force without stifling anyone's independence and the creativity of the market. Conclusively, it could be assumed that the Korean wave was originally animated by East and South East Asian countries' hunt for a standard, which will indicate a healthy growth society and the economy simultaneously.

What the key ingredient to the extravagant exhibitionism of Korean dramas, movies and music videos is the delicate insertion of East Asian traditional values. We are talking about the importance of the communal life, responsibilities and loyalty to the family, respect holding towards elderly, disciplined work ethics and empathy. These are the core morals of the inherent Confucian teachings and are widely advocated by the countries that comprise the pan-Chinese arc. These two apparently contrasting directions- the enthusiastic parade of high-modernity and the believable defense of Confucian values, can be acknowledged as the key of

attraction for the Asian audience. The eclectic principle of taking the best of both worlds, meaning creating a culture filled with overgenerous modern, exotic post modern images on the one hand and oddly familiar deep-rooted beliefs and traditions on the other, proposes contentment in twofold measure.

Korea cultural products are considered in this perspective as a multidimensional sphere dedicated in first place to the regional audience. All this does not mean that Hallyu works only based on upright hunts for Asiatic ingenuity and soulful attitudes, since quite a significant amount of Korean media creations display westernized approaches of lifestyle, money, sexuality, besides vulgar vocabulary and exhilaration for masculinity. However, Hallyu products are defined by its tension between style and content, in other words the balance between its expressive presentation and sweeping representation.

Hallyu's arrival yet cannot be certified only to its textual and technical excellence. Hallyu embraces a much deeper message as it personifies provincial socio-political and economic-cultural desires itself. It did not originate in Korea; it is somewhat more of a cultural occurrence dictated directly by political and artistic opinions in East and South East Asia. After the Cold War, Korea was deeply reliant on cultural goods from the United States, notwithstanding the discordancy of the singular mentality and emotional assemblies of Asian audience. Today's so called "cultural globalization" is in fact just a logically forthcoming phase of a cultural sensation known as Americanization as the modern Korean media products very much happened to be deep-rootedly inspired by the imported westernized artistic goods. The only noticeable alteration between the previous era of overt Americanization and today's undercover variety is the logistic approach. What used to be one-ticked-like carried from the U.S. to the rest of the globe is now being elusively realized by multinational media agents naming Disney, Sony, Time-Warner, News Corp., Sony and furthermore Bertelsmann.

The upsurge of the Korean Wave is actually a noteworthy political event. Japan and Korea had never had a gracious relationship throughout the history, however all the hatred between them has been for Hallyu slowly vanishing away. The rating parentage of E.R., Ally McBeal, and Friends on NHK channels combined was beaten by the already mention K-drama Winter Sonata. This fact indicates one- Hallyu is a mighty catalyst in healing colonial wounds and easing postcolonial abhorrence between these two countries. Here, it is worth repeating that Hallyu is a regional phenomenon and partially a reason why Korea has been able to keep its political significance intact: Hallyu is a cultural asset shared by regional members, a modest

and yet encouraging form of cultural repertoires through which people in the immediate area can improve communication and understanding. Its wide distribution bodes well for the birth of regional cultural spheres promoting dialogue between peoples beyond the confines of national culture. Even if Hallyu falls short of becoming a common cultural asset in the region, it could certainly be a stepping-stone toward the latter.

3.2. Globalization of K-pop alias Korea and the global music industry

K-pop is a new trending buzzword in the global music industry. Psy, Big Bang, Girls Generation and other current Korean artists are no longer regional superstars. They happened to gain hundreds of thousands unprecedented followers not only from all around Asia, including the Middle East territory, but also Europe and furthermore both South and North America. This cultural experience has arisen from an exclusive spectacle resting on the concept of cultural hybridity. This phenomenon can be also referred to as Pop Asianism. K-pop is not just a media production chain derived from a globalizing-localizing-globalizing progression. Its rise in the global music industry comprises a new technique of discovering new musical content from western culture and transforming it into Korean substance, and then redistributing it on a global scale. K-pop embodies determination for connection of the global music industry as well as the intercontinental talent networking incentive. K-pop is a mediator and a connecting bridge between the Western and Eastern music industries.

3.2.1. The Global Music Industry in Theory

In order to fittingly distinguish the dissimilar forms and nature of the music industry, the usage of the plural form of “music industries” is all-necessary, as their goods, services, production and distribution systems vary from each other significantly. The classical music market represents in the eyes of professionals (Bourdieu’s term, 1984) a higher form of culture, meanwhile K-pop is on the other hand a perfect illustration of “low culture”, as its output scheme is broadly different. This assumption is backed by the existence of prestigious national and international classical arts schools, which legitimately train soon-to-become musical virtuosos, whereas K-pop cannot reach for any more license than private entertainment companies/ training camps. All classical music products are delivered to its consumers in deluxe concert halls or grandly founded opera houses making the event a formal and sumptuous experience, yet K-pop concerts can only be realized in sports arenas or open air stages built overnight.

Based on the cultural categorizations, K-pop belongs to “Third World” low culture class

originating from a nation, whose both high and low music were unremarked in global mainstream culture. Paul M. Hirsch, an influential American Behavior Scientist has correctly forecasted the fundamental link between mass media and new popular music genders³ such as the birth of rock and roll and radios following the enormous success of TVs in each family households. Yet what he could not see was YouTube and the digital music overtake. Genres like K-pop were for instance ushered by this technological phenomenon. Hirsh like most of other researchers expected dominance of core cultural countries, where its artists and recording houses would become the originators, creators, developers, producers and distributors of the global popular music.

The picture of the global music industry has dramatically changed over the years. We can go back to the moment when Reggae music raised upon American pop culture or when J-pop influenced all Asia in the 20th century. Music production and delivery was before the birth of digital practices dependent on discs and magnetic tapes such as SPs, LPs, CDs, and DVDs etc., which were played on audio media devices. These physical products were for sale, yet very easily copied and pirated for cheap distribution. Even after implementing copyright legislations, artists and recording enterprises still found themselves at the position of not being able to gain much of a substantial return from their creation. Music was also aired on radios and television music channels such as MTV without charging the consumers any fees for the exchange of them listening or watching program sponsor's ads. Not every country's government put its cultural industry issues as a priority. This is where piracy was extensive and appearance on TV programs equaled substantial income sources for all artists. Another option for them to earn a living was to go on a national tour meaning less secure revenue assurances than those of TV programs.

This structure has been destroyed lately thanks to the arrival of Internet and digitalization. Consumers have gained full access to free music through websites such as YouTube and are no longer obligatory to buy music releases by recording labelers. Concerts and performances are yet still managed by production teams who either provide or do not provide recording services besides. Nowadays, the global music industry offers music producers and providers

³ HIRSCH, PAUL M., *Sociological Approaches to the Pop Music Phenomenon* , American Behavioral Scientist, 14:3 (1971:Jan./Feb.) p.371

to obtain money from posting free music on the Internet. No pleading recording houses to manufacture and dispense records, no imploring radio stations to put the particular song on air. The difference between a recording company and a music producer nowadays is that the recording business possessed and managed copyrights of music they sold, while the producers recruit, train, own and manage artists in add-on to the patent of the song sold online. This is how the Korean entertainment industry built its efficiency and profitability we will be discussing later.

The birth of the modern global music industry has erased the dense line between “high” and “low”, “developed” and “developing” culture. Everyone can put their music on YouTube and become a sensation overnight like it happened in the case of Korean artist PSY in 2012 when his megahit Gangnam Style became instantly the most talked-about topic of the year. People do not necessarily need to fight middle-of-the-road culture to relish subculture music as it is so easy to search and watch through streaming websites such as the already mentioned YouTube. Consequently it is not infrequent now to see K-pop and other pop music artists from developing regions changing the pursue of their careers as earning money has tripled and quadrupled due to the existence of the internet.

Having the chance to present oneself as a subculture musician on YouTube is one thing, becoming successful on the global basis is another issue, as it is determined by the circumstances of the managerial ecology, created by its home country’s show business regulations. Korea supports a high level of individual and group participation in music production meant to be delivered on YouTube as well as distribution created based on a new model of popular music venture capitalism.

The three major music venture capitalists (SM, YG, JYP) in Korea enthusiastically recruit and train potential K-pop stars on a persistent foundation so as to build an organizational environment portrayed by a substantial supply of musical contributions meaning composers, lyricists, singers, dancers, entertainers etc., and a small figure of actual producers (SM, YG, JYP) and distributors as in this case it is a monopoly (YouTube). In this syphoning type of industry, producers and distributors get to eat the largest bite from the profits as entertainment companies hold the powerful position for their capital investment in young potential individuals, and providers for their anticompetitive dominance. However the input essentials, meaning singers and performers gross in comparison rather small shares. (Oh and Park, 2012)

Table 1: K-pop and its intercultural projects
Source: own handiwork

MNEs	Producers	Composers	Choreographers	Distributor
	Name/ K-pop artist	Name/ K-pop artist	Name/ K-pop artist	
SM Entertainment	Teddy Riley/ Girls Generation Polow da Don/ Girls Generation	Busbee/ Girls Generation	Nick Bass/ Super Junior, SHINee Misha Gabriel/ BoA, SHINee	YouTube
		Alex James/ Girls Generation		
		KalleEngstrom/ Girls Generation		
		Oslo Recordings/ Super Junior		
		Jeff Hoeppepner/ f(x)		
		Thomas Troelsen/ f(x)		
		WellemLaseroms/ f(x)		
		NaoKanata/ BoA		
		RyojiSonoda/ BoA, TVXQ		
YG Entertainment	Will.i.am/ 2NE1 Rodney “Darkchild”	Daishi Dance/ BigBang		YouTube
	Jerkins/SE7EN	Nagao Dai/ SE7EN		
JYP Entertainment	Nick Cannon/WonderGirls	Claude Kelly/ WonderGirls	Jonte/ WonderGirls	

What makes these producers aka venture capitalists legitimate in the entire value chain, if YouTube is the solitary commanding monopolistic distributor in the new free digital music market? It is their “wanting more” approach of doing business by choosing not to rely only on the local pond of potential skills and talents in Korea, but expand its creativity management

by outspreading its production networks across the ocean to cultural Meccas such as the US, the United Kingdom and Sweden. Table 1 above displays big K-pop projects on which influential names from the western showbiz worked along with local artists for the purpose of delivering both regionally and globally successful musical outputs.

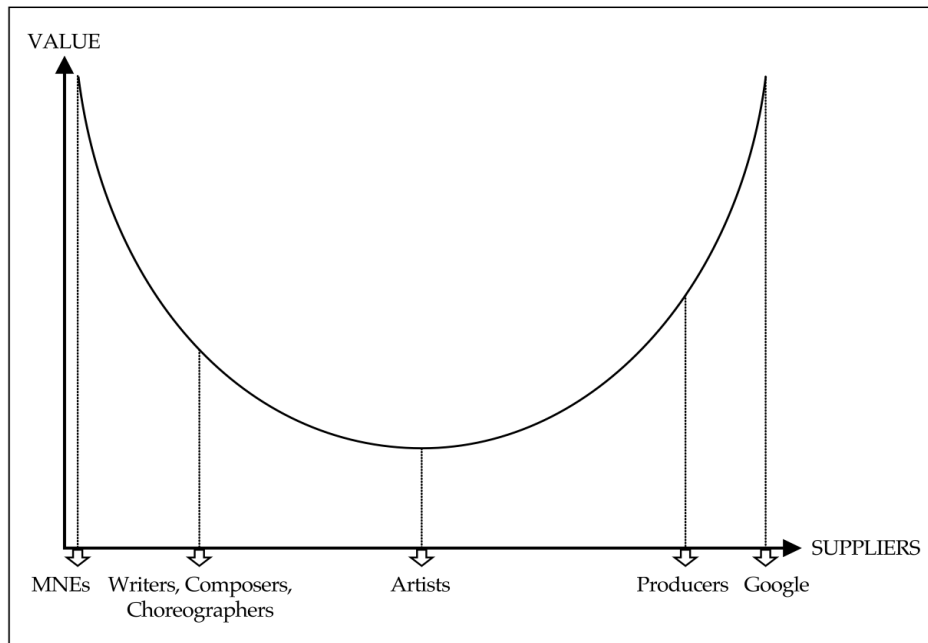


Chart 1. K-pop value display

Source: https://www.academia.edu/4732546/The_Globalization_of_K-pop_Koreas_Place_in_the_Global_Music_Industry

Chart 1 demonstrates global music suppliers dominate the middle point between multinational enterprises (MNEs) and Korean producers. MNEs finance K-pop manufacture by buying advertising time, while producers purchase some of the soon-to-become K-pop tunes, which originate mostly in Sweden (melody), England (melody, lyrics, beats) and the United States (lyrics, beats). Performers occupy the bottommost value spot on the chain, while MNEs, producers and providers (YouTube) get to take the biggest bite from the global music industry revenue. As illustrated from the value chain chart, K-pop producers have implemented a fresh globalization approach, discussed as a “G-L-G” strategy, which will be clarified more in detail right down below.

3.2.2. K-pop and its Globalization strategy

Globalization in terms of the music industry has various forms of interpretation. The first and mostly known version refers to a situation where center music overshadows the minor music markets, this phenomenon is also known under the name “music imperialism” (Black, 1994; During, 1997; Fine, 1997; McChesney, 2001). Second understanding considers this sociological process as cosmopolitanism. A distinct type of midpoint, minor, and semi-peripheral music is being sold on the market with substantial groups of fans and “bluffs” for each subgroup market. This is more or less the closest form of an ideal multicultural music market (Cho-Han et al., 2003; Iwabuchi, 2004, Forthcoming; Baek, 2005; Hirata, 2005; Chang, 2006). Third, indicates a probable existence of a new global division of labor in music production and distribution. For example in the past, European artists strived for going to the US (New York and Hollywood) to record and release their albums as for the sheer size of the pop industry. In a new global division of music production, each music creation sold in each subculture market is manufactured by a new method of global division of labor that comprises of musicians, producers and distributors from all around the world (Oh and Park, 2012).

K-pop could be categorized into the third type of globalization. It exports music under its K label to global audience for the domestic music market being vulnerable by its small size and omnipresent piracy (although it has been weakening lately). Not until K-pop boomed, Western music producers had never really looked for any Korean performers to cooperate in terms of not only production, but distribution as well. Korean popular music was very traditional; mostly trot or kayo songs dominated regional charts. Export of Korean music on an international basis started to rise at the beginning of 21st century owing to:

- Korea’s economic upsurge, which lead to its dominance in semi-periphery in the world system
- Colossal immigration of Koreans into midpoint nations (Japan, the U.S., Western Europe, etc.)
- Korean’s dynamic and active participation in international cultural industries all over the world
- most importantly, participation in the global division of labor in music manufacturing and distribution

Korean corporations no differently than any other global division of labor in production and dissemination, buy or if available use own raw ingredients dedicated to follow-up processes in their facilities. Completed products are then exported to midpoint markets. Just like Korea shipped during the 1960's and 1970's textile and footwear and later electronic goods and cars, in the 2000's and 2010's these firms started exporting IT-related communication devices (smart phones etc.). Now freshly born entertainment companies work under similar principles of intercontinental distribution of cultural Hallyu content products.

Just like local car companies import and outsource raw materials, innovative technologies and financial capitals, entertainment houses outsource original music grooves to Swedish, British and American musicians. And again, the finished K-pop music products such as CDs, MV and MP3 files require to be disseminated by midpoint distributors (SONY Music, Universal Music, EMI, iTunes, YouTube, VEVO etc.)

	Global	Local	Global
Input Process	European, American composers	Competing local composers	Competing non-European, non American composers
Production Process	Competing European, American entertainment companies and choreographers	Training ad education, Choreograph Musical variation Refining	Competing Chinese, Latin American, Middle Eastern, Southeastern entertainment companies
Distribution Process	Competing regional distributors	Competing local distributors	European and American distributors

Table 2. K-pop's G-L-G process
Source: own handiwork

“Membership” in the global division of music manufactures and distribution does not promise K-pop any fail-safe intercontinental success, as only the participation itself is very tough considering Europe's and America's authority in the music department and the difficult task

of keeping one's popularity maintainable in showbiz industry. This is the reason why this Global (G) → □Local (L) → □Global' (G') methodology (Table 2.) loses its purpose if the "L" element does not offer any creativity allowing the product to be unique and exceptional enough to draw interests of not only global producers and distributors, but mainly of global audience.

K-pop's differentiation plan to make the "L" procedure eye-catching to large-scale consumers stands on these three particular pillars:

- Number of singers staged at one time
- Artists' physique
- Voice-dance coordination

K-pop puts lots of energy to its differentiation from other musical subcultures. Producers chose very carefully their individuals aimed for the global business as they are expected to generate high cash returns on initial investments. The first thing that makes K-pop stand out from the crowd is the number of singers staged at one time. K-pop's success lies in the very large number of singers and dancers working as a band on stage. Super Junior, Girl's Generation, Big Bang, Beast, Shine, 2PM- the names of only artist clusters, which are celebrated all around the world. The "L" process therefore incorporates a singular performance formation for boy and girl bands.

Japan's top girl bands such as AKB48 or SKE48 however do not celebrate any "out of the country" success when comparing to their Korean competitors Girl's Generation or Wonder Girls. Koreans emphasize a lot on the physique factor. This can be considered as the second pillar of K-pop's disparity strategy. Let alone the fact that the Korean performers appear in a much sexier and fashionable look showing off more body parts, they are also a whole lot taller than the members of AKB48. The same rules apply to boy bands. All this perfect superficiality results in K-pop producing visually more tempting music videos than those of Japanese or Chinese counterparts. K-pop targets Asian and Western female fans primarily, which means skinny, tall, adolescent looks, cosmeticized and perfect facial proportions are a must regardless of gender.

There are lots of bands from other countries, which let's say do have the asset of the visage factor, yet why does their rise to fame fall short of fan base? The answer is the ability of perfect sing-dance synchronization. When talking about K-pop, the "L" step comprises of a

specific form of internal investments provided by local entertainment companies/ venture capital firms. As an investment in this case, I mean a training program, which not only allows young talents to reach to their full potential, but also extend their capabilities to other artistic/entertainment areas.

There is a lot of criticism going on about the training program young kinds go through as it is accused of being abusive, dictatorial and restrictive. K-pop managers argue that the K-pop learning process is no different from college prep schools, sport schools and any other similar foundations. They emphasize on the fact that they pay for all the training and education of future K-pop stars, yet another question occurs, if the claim is true or not, as most of the time trainees take a loan from their domestic entertainment company, which they pay off once they get to debut. After the entire period of training final products, meaning performers posses all kinds of abilities, from singing, dancing, acting, to MCing and speaking a new foreign language or gaining variety comedian skills. Moreover their style is much sexier and spick-and-span in comparison to their opponents from Japan or China.

With completed music goods and services, meaning global concert tours, physical CDs and DVDs, as well as music videos (downloaded or streamlined online), K-pop companies go overseas to promote finished merchandises through international suppliers. Since CDs and DVDs must be protected by copyright, all K-pop companies rely on Japanese distributors for Japanese and other Asian markets. For concert tours, K-pop companies rely on local concert organizers who are also label sellers in the specific market. Nevertheless, profit from these finished products is minimal when associated with the income from YouTube and other social media sites. YouTube is above all of them the groundbreaking social media site, which has provided unforeseen chances and opportunities to K-pop producers to rise, while other sites such as J-pop Asia and VEVO are latecomer negligible opponents to the distribution dominator.

3.2.3. K-pop and its position on the global scale

K-pop global success is definitely not a product of its cultural hybridity process when Korea incorporated Chinese and Japanese influences. Back before the Hallyu wave was born, Korean culture had not been any popular in Asia, not talking about the world. Asian viewers did not tune to watch Korean television production, films or even listened to the music. No Korean restaurants were opened outside the border, let alone people wanting to learn the language.

The overwhelming attainment K-pop has gained in the 21st century signifies a one-off historical and geographical cultural consequence in the contemporary global system. As already mentioned in the theoretical part of the thesis, Korea's political liberalization has downgraded censorship or bans on not only Korean and Western popular music, but also J-pop. Consequently this brought Korean popular culture to be more miscellaneous, innovative and fearless in terms of both content and presentation compared as compared to its past under dictatorship. Second, Korean celebrities/artists have acquired an idiosyncratic look compared to the rest of Asia. This unique physique is a result of either long process of evolution or cosmetic surgeries, which have become an on day-to-day basis enhancing beauty boosts. And third, technological progression and Internet has allowed artists to spread their music all over the world allowing them to reach out to consumers even from across the ocean, letting them enjoy global content from various cultures, including Korea. Without all the digital technology, K-pop would definitively not be acknowledged as it is today. Another point, China, India, Latin America as well as South East Asia has opened its markets (including the cultural one) as a result of accepting capitalist economy systems, allowing them for less prejudiced investments and imports in the Asian entertainment industry.

K-pop enjoys its status and fame for its ability to know how to support the global trend and where K-pop embodies a new cultural substance that delivers unexpected, yet bewildering extras to Western and Japanese music producers and distributors thru outsourcing the manufacturing process of pop to Korea. If Korea acquires machineries, investment, and public capital in the global entertainment commerce, it is no doubt capable of remaining its semi peripheral character of export manufacturing.

3.3. Oligopoly of K-pop and its unique features

The Hallyu wave has made a great impact on Korea's GDP, it is responsible for spawning an entire new industry comprised of music publishers; production houses and event management companies; distributors of K-pop music and many other K-culture merchandise and amenity providers. The most dominant agencies reflecting revenue are S.M. Entertainment, YG Entertainment and JYP Entertainment, also discussed as the "Big Three". Their stocks are traded at the Korea Exchange. These venture-like organizations multitask as a music label and artist development and management agency. They were established at the early beginning of the 2000's when Korean culture started to spread its influence all across East and Southeast Asia. In short, their business activities include recruiting, training, financing, marketing, publishing new artists, managing their activities and public relations, yet not forgetting their music, film, commercial and TV production.



S.M. Entertainment is the strongest agency in terms of market share. It is S.M. who is responsible for artists actually creating Hallyu by managing to break into Japan. The "Big Three" have been cooperating with each other more frequently on events and projects in order to generate the biggest revenue possible. The perfect example is the SBS talent show "K-pop Star" at which their representatives judged together for the first 3 seasons.

Picture 1. Logos of the top three Korean entertainment companies

Source: <http://joshuaongys.com/2012/10/profit-distribution-percentage-kpop-star-artist-top-3-entertainment-agencies-south-korea-sm-yg-jyp/>

The "Big Three" instituted an association jointly with Star J Entertainment, AM Entertainment and Key East named United Asia Management (UAM), whose ambition is to

spread K-pop globally in addition to accelerate the artist development system together with the recruitment and management processes. UAM auditions are global, not limited to only Korean talents; it has expanded its management portfolio aside from musicians by actors, directors, stylists, and hair and make-up artists. The merge was highly criticized as it might put burden on content providers not mentioning the threat of bulldozing other Asian countries cultural industry, which are unable to compete with the mass production of Korean entertainment companies. In 2009, DFSB Collective became the first distributor of K-pop songs on iTunes. The overseas expansion by K-pop music agencies has led to significant upsurges in return and total revenue.

3.3.1. Strategic analysis of SM Entertainment as a market leader

SM Entertainment is Korea's front running venture capitalist/talent agency/record label in terms of both revenue and market share.

It was established in the year of 1989 by Lee- So- Man with the vision of putting Korean music on international music charts and concert stages.

Star Factory and Idol System aka breeding multi-talented entertainers

SM Entertainment has found success by understanding the meaning of a strong relationship between a consumer and an artist. The Korean music business is so profitable thanks to its focus on building a strong connection between their artists and consumers. The product SM or any other entertainment company is introducing to the world is not just the music, but also the artist as a human being. In the end, he/she is becoming a role model for thousands of teenagers. This strong connection encourages the fans to support their idol 100 percent by purchasing all kinds of consumer products related to the entertainer and his music/drama. But let's start from the whole beginning of the tough long-winded stardom process.

As said before, the final product each company releases and hopes to make profit from, is not a singer or an actress, but an IDOL. An idol is defined as a versatile entertainer having both the looks and a unique stardom personality. As for the looks, a slender bodyline, a minimum height of 163 cm and perfectly proportioned facial features is a standard that needs to be strictly followed. Anyways, to hunters and scouts, vocal, dancing and acting talent has never

really been a decisive quality of whether someone is becoming an adored artist or not. They are looking more likely for a well-defined physically picturesque individual with the x factor potential, not pure vocal skills, as the Idol himself/ herself will become a one-off brand in the end of the training process.

Thousands of young kids and teenagers starting the age of 8 audition every year for the life changing opportunity to become an to-be-celebrity trainee. When lucky enough to be chosen, these top youngsters are first obligated to sign a trainee (servitude) contract stating very clearly all of the tuition fees needed to be paid either in advance or the possibility of taking a credit loan from the home company as an investment and later, after the debut repay the debt. Another segment of the agreement involves a long list of bans and rules. Many of them are outlandish, crossing the line of the one's right to freedom, such as the prohibition of owning a telephone or obligatory approvals from superior when sharing posts on social media. Not mentioning demanding young girls to undergo numerous plastic surgeries if rated "not attractive enough".

Trainees are instructed and tutored in all various areas of arts. Singing, dancing, acting, languages and public speaking is mandatory. Other courses such as composition, playing instruments, variety show skills, modeling or photo modeling are taught so as to uncover and awaken hidden talents of each individual trainee. The more one can multitask, the higher his chances of debuting are. In general, most of the trainees take minimum of 1-8 years to be trained before they are perfectly tailored to the market demand. Unfortunately just a handful makes it to the finish line. The majority of these ambitious youngsters end up being up to their neck in huge debts while wasting years of hard training, and strict self-tractability.

SM Entertainment has lucratively mastered the systemic "star factory" model that breeds potential trainees to top-notch entertainers. The debut contract addressed to the chosen finalists ensures the soon-to-become stars an all inclusive music production, management, marketing and PR services package. Yet the monetary split between the artist and the agency is very uneven. The company takes 50-85 percent of each commission. This is why investing in one multi-talented individual who brings revenue from all various fields of entertainment is much more cost effective than signing solely singers or actors.

All for one and one for all Strategy aka Why girl bands and boy bands?

In comparison to any global music industry, Korea is a contradiction on its own already seen just by the unique approach of girl band, boy band market dominance. SNSD aka Girls Generation is a perfect example to explain this one-off SM strategy on.

SNSD is SM Entertainment's most successful product launched in August 2007. This girl group now composes of eight members: Taeyeon, Sunny, Tiffany, Hyoyeon, Yuri, Sooyoung, Yoona and Seohyun, Former member Jessica left in the year of 2014. . What is so thought provoking about the concept of this band is the division of roles. Each idol finds herself strong in a different field:

- Taeyeon (and Jessica) is the lead vocal, 70 percent of SNSD's songs are sung solely by her, her first-rate communication skills have made her a well-known television and radio host.
- Sunny and Sooyoung contribute to the popularity of her group by participating in television variety shows as their sense of humor and humorist talents by far exceed the rest of the group
- Hyoyeon is Girl Generation's best dancer, her appearances in TV dancing shows are highly demanded
- Yuri together with Yoona stands out with their acting skills. Their popularity boosts up with every new drama released.
- Yoona and Seohyun are group's visuals. Their perfectly proportioned facial features and slim tall physiques are very often seen on fashion runways.

Members of Girls Generation have covered together all arenas of the entertainment businesses- from music, television, radio, drama, film to fashion and advertisement. Each member as an individual creates a direct link to the company's key source of revenue- the group.

The G-L-G Production Strategy

SM music production stands on the already mentioned and explained Global to Local to Global marketing strategy. The first G stands for importing Westernized music, fashion,

melodies, beats, grooves and dance moves. Here, the raw material is “localized” and translated into Korean pop culture. Entertainers are selected from local areas and trained to play the part. The second G – the global strategy encompasses taking this localized Western material called K-pop and market it internationally into the global music business. This methodology has been explained in all its details in the previous chapter of this thesis named *K-pop’s globalization strategy*.

Rearrangement of Revenue Channels

One of SM’s staple business strategies is to modify outdated revenue channels by shifting from B-2-C (business to customer model) towards the B-2-B (business to business) model, where most of their business dealing is done with YouTube, TV houses, and merchandise distributors, rather than through solitary direct record sales.

Credited to the cooperation with these mass distributors, Korean music has become widely available and easily accessible from anywhere in the world. It is now able to reach much greater audiences than 10 years ago.

This strategy was as well clearly defined in the previous chapter of this thesis, yet repeating it would not hurt anybody. This tactic is characterized by a large number of musical inputs (i.e. performers, bands, composers) a low-slung number of producers (SM as a production company) and one or two distributors with a large reach (YouTube). SM as said before, acts as a venture capitalist, investing large amount of money into training talents, and reaping almost all of the profit.

3.4.The curiosities of South Korean music industry

3.4.1. Bucking Global Trends

According to the IFPI's invaluable Recording Industry in Numbers⁴, South Korean recorded music revenues declined by 5% in 2012 after Gangnam Style made its huge debut on the international scene breaking a run of four years continuous growth. Contrasting to the global market, CDs were not guilty of the downfall but digital. Very interestingly, the Physical revenue flourished by 19%, the third sequential year of growth since 2009, while digital revenues paradoxically dropped by 25%. This fact logically dragged the entire music market down with a loss. The global music market is on the other hand experiencing the exact contrary where 7% digital growth could not fully cover its 5% physical decline.

We can easily tell from the chart 2⁵ that since 2000 till 2012 figures and charts remained enormously dissimilar from the universal market making K-pop stand out from the pack.

- Physical prosperity: physical revenues raised all years but one (2009) since the year of 2007, unlike the global market, which was suffering from a steady falling-off every year since 2000
- Revenue flop: South Korea lost between 2001 and 2005 a mammoth 67 percent of its worth whereas the global market plunged by a more modest 18%.

⁴ All calculated numbers in this chapter derived from statistical records gathered from all various IFPI's Industry in Numbers publications:

- IFPI (2003) *The Recording Industry in Numbers 2003*. London: IFPI, 2003 Print
- IFPI, Gabriela Lopes, and Keith Jopling. *The Recording Industry In Numbers 2005*. London: IFPI.
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- IFPI (2012) *The Recording Industry in Numbers 2012*. London: IFPI, 2012. Print.

⁵ Chart 2 was created by upon the exact same IFPI numeral statistics as my calculations

- Digital crossover: in 2006 South Korea became the very first major music market to develop over 50% digital revenue when stating the global rate of 2012 being 38%.
- Subscription dominance: Korean subscriptions were in 2012 an equivalent for 74% of digital revenues while the international rate was about 20%.

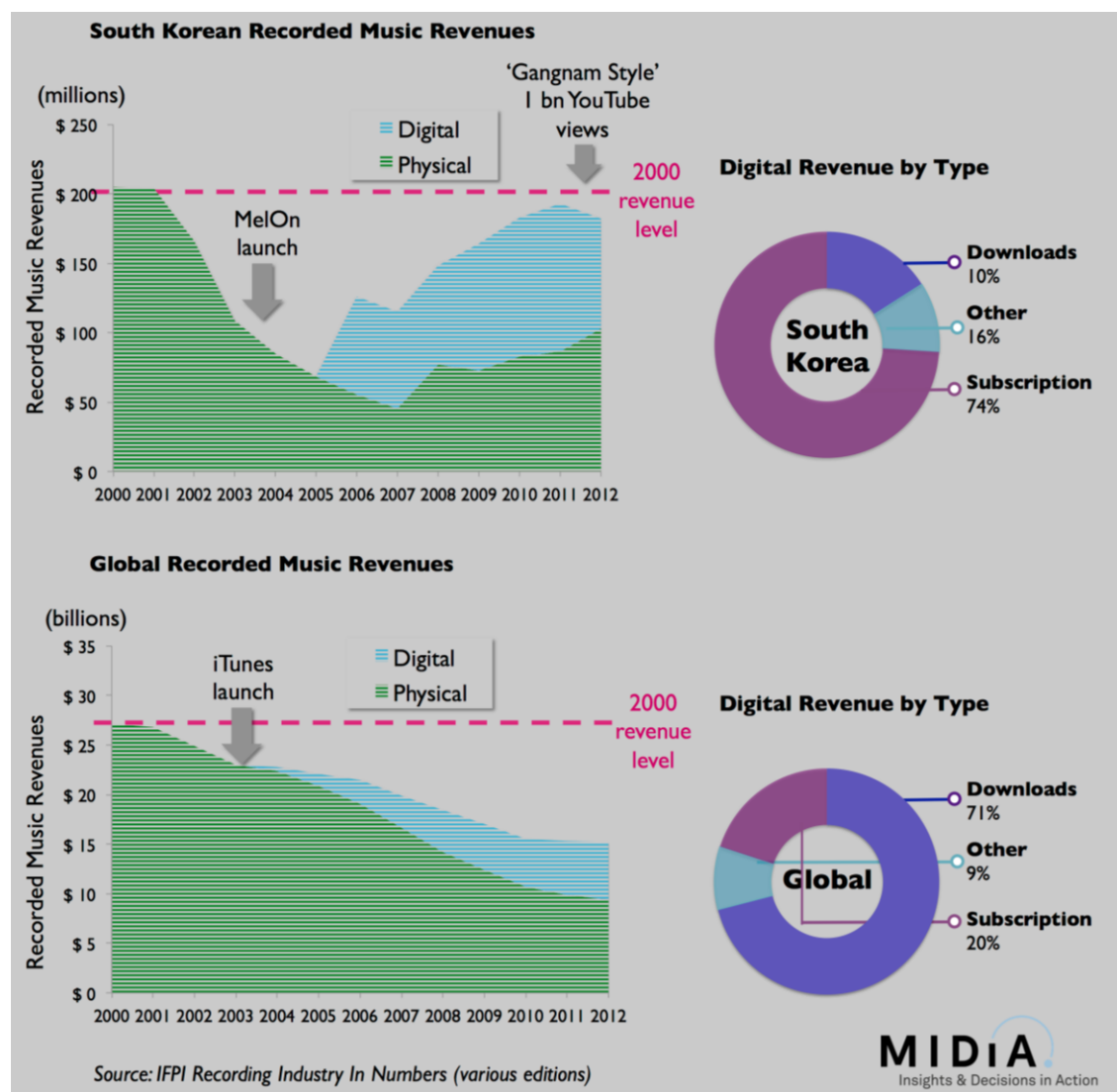


Chart 2: Comparison of Korean music revenues on the global scale

Source: <https://musicindustryblog.wordpress.com/2013/05/08/the-curious-case-of-the-south-korean-music-market/>

3.4.2. Thunderous CD Sales vs. Dropping Download Revenues

The 13 year long atypical industrious history of Korean music has unfortunately yet no official explanation, which does not automatically mean no fundamental factors resulting this particular phenomena were not through statistics and research concluded.

Piracy:

No doubt piracy is wide-ragingly one of the key factors causing the colossal downfall in music revenues across the globe, but the effect was primarily with deep intensity felt in K-pop. It all goes back to the 1990's and early 2000's, when the South Korean government enthusiastically supported the Telco sector, ensuing one of the best high-speed broadband infrastructures in the world. Yet this backing came at the cost of the government effectively turning a blind eye to rights holder concerns. Expectedly piracy roared with file sharers and networks similar to operating with near impunity. It was so massive that South Korea landed with a red light on the US Trade Representative's piracy watch list. This situation had worsened until 2007/8 when the government finally came up with the new copyright regulation incorporating a graduated response initiative in the next year of 2009. As the market was growing since then by an impressive 58% it nearly reached the 2000 levels in the year of 2011. Another question accrues of how much of this progression can be credited to the government action as music revenues had already grown by 84% in 2006 only, even though the statistics of this year are twisted by the fact digital numbers were not stated in previous years.

Subscriptions:

The fundamental force in South Korea's digital market is SK Telecom's MelOn subscription service. It became the first music provider in the world to accumulate a million paying subscribers and by the year of 2012 numbered 2 million paying users and 18 million registered users. MelOn's success was reached thanks to its pricing strategy, which was very competitively set at less than \$3.00 and included mobile downloads from the very start, allowing it to have instant impact. South Korean subscription boomed between the years of 2009 and 2012, when revenues more than doubled. Rights holders were yet still not satisfied, S.M. Entertainment founder/CEO Lee-Soo Man claimed that 1 million tracks consumed on MelOn do not cover MV (music video) costs for a single. The pressure resulted in

government intervention and in January 2013 MelOn had no choice but double its subscription rate to 6,000 won (about \$5.60).

Download collapse:

MelOn's price hike came logically after the digital drop in 2012, which in its place was initiated by a collapse in music download revenue, dropping by a confounding 71% in 2012. The download collapse was the single biggest driver of the overall decline in revenue in 2012. In fact, if download revenue had remained flat, total revenues would have grown by 6% in 2012. Much of the decline is credited to network Cyworld's (SK Telecom asset) struggling year of 2012, as it was not able to compete against Facebook despite the fact of allowing users to buy music online to individualize their profiles.

Physical durability:

Korean physical revenues have massively opposed the global down falling tendency, with 2012 revenues 128% bigger than their 2006 low. This compares to a 14% rise for digital (though the 2012 collapse obviously skews the rate down). Japan also experienced this unique trend with a physical uptick in 2012. The resemblance of these two markets lies in the ability of their home music sectors, meaning K-pop and J-pop forming devotedly faithful fan bases that enthusiastically support their idols in every way possible including buying extravagantly packed CD goods often comprising merchandize extras, and commonly bringing fans to buy multiple editions of the same release. South Korean and Japanese pop markets have managed to successfully distribute extraordinary, tangible added value with classic physical products.

K-Pop as an industry:

K-pop has been a vital aspect resulting Korea's music market to grow so rapidly. Yet it has been very heavily criticized for its exceedingly manufactured genre and optimization systems. We can find many cases when artists claim they were dragged down to "contract slaves" status, while others negatively perceive the oligarchy of K-pop powerhouses, which rule the local music market. The official cultural evaluation states the fact that this mass-produced pop methodology places too hefty an emphasis on presentation over content, and an over focus on 'safe bet' lowest common denominators. Whatever black list issues K-pop might have, we cannot deny its principal role to the resurgence in South Korean music revenues.

4. Conclusion

K-pop has become a mammoth subject for scholars and music business specialists to scrutinize as its global popularity has risen in speed of light letting lots of them wonder how has this phenomena (hand in hand with Hallyu) gained such a huge number of devoted consumers in all around the world- starting with Asia, now also in Europe and both South and North America.

The original rationalization to this unique cultural event laid in the concept of cultural hybridity or also referred to as Pop Asianism. However, globalization of K-pop hides more than just a continuous cultural mixing process. It embraces a methodology of globalizing-localizing-globalizing music production chain. Korea has gained its place in the global music industry through a new-fangled practice of locating previously common and popular musical substance from the west, transforming it into Korean content, and then redistributing it to the international music market. K-pop works on the basis of intercontinental networking system, which tries to connect talent pools from all corners of the world. Korea managed to put itself in the role of a mediator between the Western and East Asian entertainment industry the process of restructuring revenue channels from B-2-C to the B-2-B model has also a great impact on its success. Korean Entertainment Agencies' approach on venture-like business model indicates how lucrative a “globally down streaming industry” can be.

Lessons for the Global Entertainment Market

The South Korean music market is with no doubt one of paradoxes and idiosyncrasies, but essentially it also holds many lessons that the global music market would do well to pay attention to. Trends when attempted to project them onto western markets need to be carefully examined, yet even with that forewarning there is clearly a lot worthy learning from the South Korean practice:

- Bringing revenues to 2000 levels is an goal achievable
- When sustainability values put aside and competitively priced, subscriptions can reach substantial scale
- Physical revenues can be given new impetus with smart product strategy

- Concentration of whichever solitary segment of digital revenue in a single player can bring the market into high vulnerability.

But perhaps most importantly of all, just like in the disclaimer of a financial services advert: music revenues can go up and down. Even when a market eventually starts to grow again, don't expect it to mean that the corner has been permanently turned.

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