

**Animating Globalization and Development:  
The South Korean Animation Industry in Historical-Comparative Perspective**

by

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June 3, 2011

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Dissertation submitted in partial fulfillment of  
the requirements for the degree of Doctor  
of Philosophy in the Department of  
Sociology in the Graduate School  
of Duke University

2011

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ABSTRACT

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## Abstract

Over the last decades, the global flow of cultural goods and services has significantly grown as a result of liberalized international trade and investment and technological advance. Global cultural production is now flexibly organized and decentralized as more tasks are outsourced into different parts of the world. Yet, the question of how globalization has affected the structure of global cultural industries and upgrading dynamics has not been taken seriously.

This study takes up this question by examining the animation industry in South Korea (“Korea” hereafter) and its changing relationship with global animation production from an historical-comparative perspective from the mid-1960s to the late 2000s. This study attempts to answer several main questions: 1) How did two waves of globalization differently reshape the structure the global animation industry? 2) What are the major characteristics of the Korean animation industry at different stages? 3) How did the differences between U.S. and Japanese outsourcing chains and international coproduction chains affect the upgrading outcomes of Korean suppliers? and 4) Has the Korean state’s developmental role been declined, preserved, or reconfigured over time?

Based upon secondary literature and the author’s field interviews in Korea, India and Japan in 2008 and 2009, this study finds that the animation industry has been

globalized over the last four decades with two distinctive waves of globalization. The first wave until the 1980s involved the rise of offshore outsourcing networks linking the U.S. market to East Asian suppliers. The second wave beginning in the 1990s has restructured the industry through the consolidation and global expansion of media conglomerates, the relocation of offshore outsourcing, and the growth of animation production and consumption in emerging economies.

Throughout the period, the Korean animation industry has undergone three distinctive phases in terms of its development patterns. The development path has been constructed by the interaction of global linkages and local dynamics. The first phase leading up to the mid-1980s is characterized by a gradual integration to global production networks through small-scale processing. The ensuing large-scale, outsourcing-based export growth defines the second phase up until the end of the 1990s. The latest phase is the outcome of a new path in the late 1990s toward upgrading based on local production and international coproduction.

The disaggregation of global forces at the global value chain (GVC) level shows marked differences between U.S. and Japanese outsourcing chains in terms of chain structure, division of labor, firm characteristics, and chain governance. These differences generated distinctive upgrading patterns among two segmented local supplier groups. A quick build-up of large-scale production by consolidated suppliers in the U.S. chains (yet their equally quick decline later) contrasts to a slower pace of upgrading by a large

group of fragmented suppliers in Japanese chains. While the structure of emerging international coproduction chains varies by project, power relations between the partner firms are critical to determine the gains captured.

Finally, as for the role of the state, the finding of this study supports the reconfiguration argument that the developmental state, at least in Korea, is not in eclipse but bolstered with a new mode of state intervention and developmental alliance. In the face of growing competitiveness pressure on Korean firms at home and abroad, state-led, export-oriented development strategies have been rather strengthened and extended. Sector-specific industrial policy has increased, not decreased, particularly after the economic crisis of the late 1990s. Industrial policy has been narrowed onto the sector level and strategically engaged in specific chain nodes within the sector. Organizationally, this policy reform was supported by a newly-minted developmental alliance based on original animation exports and the re-embedding of the state onto specialized supportive agencies and new policy constituencies.

These findings are compared and contrasted to the experience of the Indian animation industry to draw implications for upgrading in the global cultural economy, which include: a) globalization as a differentiating and restructuring process; b) the interaction between global integration and local production; c) linkages between local, regional and global markets; and d) value chain-based state intervention.

For my grandmother and parents,

Bang In-ye (1913-1999),

Lee Kyeong-won and Park Hee-dang



## Contents

Abstract .....	iv
Contents.....	viii
List of Tables.....	xiv
List of Figures .....	xv
List of Abbreviations .....	xvi
Acknowledgements .....	xviii
1. INTRODUCTION .....	1
1.1 Research Questions .....	4
1.2 Main Findings .....	5
1.3 Theoretical Contributions.....	10
1.4 Study Design.....	13
1.4.1 Cases .....	13
1.4.2 Data Sources .....	17
1.4.3 Historical-Comparative Approach.....	24
1.5 Organization of Thesis.....	28
2. THEORETICAL FRAMEWORK.....	29
2.1 Introduction.....	29
2.2 Globalization and Cultural Industries.....	30
2.2.1 Cultural/Media Imperialism: A Critique of Cultural Globalization.....	32
2.2.2 “Middle-range” Theories of Global Cultural Flows .....	37

2.2.3 Globalization as Restructuring Global Cultural Value Chains .....	45
2.3 Varieties of Global Value Chains.....	51
2.3.1 Global Value Chains: Key Concepts.....	51
2.3.2 Theories of GVC Governance and Upgrading .....	56
2.3.3 Varieties of GVCs, Multiplicity of Governance, and Upgrading .....	61
2.4 Globalization and Developmental States.....	64
2.4.1 Globalization, the State and Development.....	64
2.4.2 Theories of Developmental States: Eclipse, Entrenchment, or Adaptation? .....	70
2.4.3 Analyzing Developmental States: Development Strategy, Industrial Policy and Social Coalition.....	77
2.5 Conclusions .....	82
3. THE GLOBAL ANIMATION INDUSTRY ON THE MOVE .....	84
3.1 Introduction.....	84
3.2 The Animation Industry: Overview .....	84
3.2.1 Animation as a Cultural Product.....	84
3.2.2 From Script to Screen: Industrialized Animation Value Chains.....	88
3.3 First-wave Globalization: 1960s – 1980s.....	93
3.3.1 The Animation Production System in the United States.....	93
3.3.2 The “Outsourcing Wars” and Emerging International Division of Labor .....	95
3.3.3 The Rise of Regional Production Networks in East Asia .....	99
3.4 Second-wave Globalization: 1990s to the Present.....	104

3.4.1 Global Animation Markets in Transition.....	105
3.4.2 Redrawing the Geography of Animation Production .....	112
3.4.3 Changing Institutional Environments: Global and Domestic .....	115
3.5 Conclusions .....	118
4. GLOBALIZATION AND THE KOREAN ANIMATION INDUSTRY.....	119
4.1 Introduction.....	119
4.2 Small-scale Outward Processing: 1966 – 1985 .....	120
4.2.1 The Inflow of Foreign Animation .....	120
4.2.2 The Path toward Export-oriented Industrialization .....	124
4.3 Large-scale Offshore Outsourcing and Export Growth: 1986 – 1999 .....	129
4.3.1 The “Golden Age” of Animation Export .....	129
4.3.2 U.S. Export Chains as a Growth Driver .....	132
4.3.3 The Growth Patterns of the Korean Outsourcing Suppliers.....	135
4.3.4 Rebuilding Local Animation Production .....	138
4.4 Path-breaking and Original Production: 2000 to the Present.....	142
4.4.1 The Collapse of Outsourcing Exports and Local Responses .....	143
4.4.2 Economic Crisis, New Entrants and the Original Production Model .....	147
4.4.3 Building Robust Local Value Chains: The State’s Policy.....	151
4.4.4 International Coproduction as an Upgrading Pathway .....	154
4.5 Conclusions .....	159

5. THREE WORLDS OF UPGRADING IN KOREA: U.S. AND JAPANESE OUTSOURCING CHAINS AND INTERNATIONAL COPRODUCTION CHAINS.....	165
5.1 Introduction.....	165
5.2 U.S. and Japanese Animation Outsourcing Chains .....	166
5.2.1 Chain Structure .....	168
5.2.2 Division of Labor .....	174
5.2.3 Firm Characteristics: Buyers and Suppliers .....	179
5.2.4 Contract Characteristics .....	182
5.2.5 Chain Governance .....	184
5.2.6 Organizational and Upgrading Consequences.....	189
5.3 International Coproduction Chains .....	195
5.3.1 Structure of International Coproduction Chains.....	196
5.3.2 A New Upgrading Strategy or Disguised Offshore Outsourcing?.....	200
5.4 Conclusions .....	205
6. THE KOREAN DEVELOPMENTAL STATE AND THE ANIMATION INDUSTRY .	209
6.1 Introduction.....	209
6.2 Policing Animation, Selectively: 1966 – 1993.....	211
6.2.1 Ignoring Outsourcing Exports and Suppressing Local Production .....	211
6.2.2 The State and the Local Production Boom in the 1980s.....	215
6.3 Promoting Local Animation against Globalization: 1993 – 1999 .....	218
6.3.1 A New “Cultural Industry” Initiative: Policies and Organization .....	218

6.3.2 Globalization and Changing State-Business Relations.....	221
6.3.3 The State, Chaebol and the Animation Industry.....	224
6.4 Riding on Globalization by Exporting Animation: 1999 to the Present.....	229
6.4.1 The Economic Crisis and Reorienting Cultural Industry Policy.....	229
6.4.2 Value Chain-based Industrial Policy.....	230
6.4.3 Reorganizing Policy Networks and Re-embedding the State .....	235
6.5 Conclusions .....	242
7. GLOBALIZATION AND THE ANIMATION INDUSTRY IN INDIA .....	247
7.1 Introduction.....	247
7.2 Globalization and the Animation Industry in India.....	247
7.2.1 From Suspended Animation to Global Integration: 1995 – 2000.....	248
7.2.2 Animation as the “Next Big Thing”: 2001 to the Present .....	253
7.3 Divergent Roads to Upgrading .....	260
7.3.1 Offshore Outsourcing Chains .....	262
7.3.2 International Coproduction Chains .....	265
7.3.3 Domestic Market Chains.....	266
7.3.4 The Localization of Media TNCs and Upgrading.....	271
7.4 The State, Industry Associations, and Animation .....	275
7.4.1 The State: From Animation Producer to Upgrading Facilitator.....	276
7.4.2 Animation and Industry Associations.....	280

7.5 Conclusions .....	282
8. CONCLUSION: ANIMATING DEVELOPMENT IN THE GLOBAL CULTURAL ECONOMY .....	284
8.1 The Restructuring of Global Cultural Industries .....	285
8.2 Varieties of Upgrading Paths.....	293
8.3 The State and the Politics of Upgrading.....	301
Appendix A: Interviewee Lists .....	309
Appendix B: Animation Production Process .....	315
References .....	319
Biography.....	345

## List of Tables

Table 1: Three theoretical pillars of the study.....	30
Table 2: Theories of global cultural industries.....	49
Table 3: Top 20 audiovisual companies worldwide, 2004 .....	86
Table 4: Top 20 animated features with the highest gross since 1980 .....	87
Table 5: Example of start-up animation studios in Korea and Taiwan in the 1970s .....	102
Table 6: Timeline of international expansion of U.S. children’s channels, 1992-1999 .....	109
Table 7: Contributions to total global box office: Markets in growth and decline .....	110
Table 8: The development path of the Korean animation industry .....	120
Table 9: Regional share of Korea’s animation exports, selected years .....	131
Table 10: Leading animation exporters in Korea, 1993.....	137
Table 11: Original and contract animation production in Korea, selected years.....	148
Table 12: Distribution of international coproduction partners by country, 2003-2009 ...	156
Table 13: U.S. and Japanese animation outsourcing chains in Korea.....	168
Table 14: The state and the Korean animation industry.....	211
Table 15: Annual budgets of MCT and CIB, 1994-2005 .....	235
Table A-1: Interviewee list, Korea.....	310
Table A-2: Interviewee list, India.....	312
Table A-3: Interviewee list, Japan.....	314

## List of Figures

Figure 1: World animation market, 2003-2008 .....	85
Figure 2: A stylized value chain of animation .....	89
Figure 3: Korean animation exports, 1980-2007.....	130
Figure 4: U.S. animation outsourcing chains .....	170
Figure 5: Japanese animation outsourcing chains .....	173
Figure 6: International animation coproduction chains .....	198
Figure 7: The evolution of state-industry relations in Korean animation.....	240
Figure B-1: 2-D animation production process.....	316
Figure B-2: 3-D animation production process.....	317
Figure B-3: Hollywood film value chains.....	318



## List of Abbreviations

CEO	Chief Executive Officer
CFU	Cartoon Film Unit
CIB	Cultural Industries Bureau
CIPF	Cultural Industry Promotion Fund
CPN	Cross-border production networks
DTV	Direct-to-Video
DVD	Digital Video Disk
EBS	Educational Broadcasting System
EOI	Export-oriented industrialization
EPB	Economic Planning Board
FDI	Foreign direct investment
FICCI	Federation of Indian Chambers of Commerce and Industry
GATT	General Agreement on Tariffs and Trade
GCC	Global commodity chains
GPN	Global production networks
GVC	Global value chain
IMF	International Monetary Fund
IPRs	Intellectual property rights
IT	Information technology
KAPA	Korean Animation Producers Association
KBS	Korea Broadcasting System
KCPDI	Korea Cultural Policy Development Institute
KCTPI	Korea Culture and Tourism Policy Institute
KOCCA	Korea Creative Content Agency (2009- ) Korea Culture and Content Agency (2001-2009)
M&E	Media and entertainment
MBC	Munhwa Broadcasting Corporation
MCPI	Ministry of Culture and Public Information, Korea (1961-1990)
MCS	Ministry of Culture and Sports, Korea (1993-1998)
MCST	Ministry of Culture, Sports and Tourism, Korea (2008- )
MCT	Minister of Culture and Tourism, Korea (1998-2008)
MGM	Metro-Goldwyn-Mayer
MIB	Ministry of Information and Broadcasting, India
MOC	Ministry of Culture, Korea (1990-1993)
MPAA	Motion Picture Association of America
NASSCOM	National Association of Software and Service Companies

NGOs	Non-governmental organizations
NICL	New international division of cultural labor
NID	National Institute of Design
NWICO	New World Information and Communication Order
R&D	Research and design
SBS	Seoul Broadcasting System
SICAF	Seoul International Cartoon and Animation Festival
SMEs	Small-and-medium enterprises
TBS	Turner Broadcasting System, United States
TNCs	Transnational corporations
UNESCO	United Nations Educational, Scientific and Cultural Organization
VFX	Visual effects
VoC	Varieties of capitalism
WTO	World Trade Organization

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# 1. INTRODUCTION

Globalization significantly affects the structure and mode of operation of global industries and processes of development and upgrading within them (Gereffi 2005; Dicken 2007). It has been widely debated whether globalization leads to the convergence of national industrial and regulatory systems or whether their distinctive nature is preserved (Guillen 2001a; Held et al. 1999). Some argue that globalization brings new upgrading opportunities to developing countries, while others worry that it drives a “race to the bottom” or “immiserizing growth” (Kaplinsky et al. 2002). Also, globalization challenges the role of the state in guiding industrial development; some suggest the demise of the developmental states, but others find the persistent or transfigured role of the state in responding to globalization challenges (Evans 1997b; Guillen 2001a; Brady et al. 2007; Ó Riain 2000b).

Cultural industries are not an exception to globalization (Crane et al. 2002; UNCTAD 2008).<sup>1</sup> Over the last decades, the global flow of cultural goods and services has significantly grown as a result of the liberalization of international trade and investment and new communication technologies like satellite broadcasting and the Internet. Furthermore, global cultural production is now flexibly organized and

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<sup>1</sup> Acknowledging complexity and difficulty in defining cultural industries, this study follows Hesmondhalgh’s (2002: 11-12) definition that cultural industries are mainly associated with the industrial production and dissemination of texts for communicating to an audience.

decentralized as more tasks are outsourced to different parts of the world; as with manufacturing, not only final products but also processed goods are crossing national borders (Storper 1989; Scott and Pope 2007; Pratt 2008). While transnational media giants are the major driving forces of cultural globalization (Miller et al. 2005), cultural industries are also on the rise in the periphery (Barrowclough and Kozul-Wright 2008; Keane 2006).

This growing integration of local cultural activities into global industries affects the prospect of development strategies based on cultural industries, which have gained a growing recognition. Nurturing cultural clusters and creative workforces has become critical in urban revitalization in many advanced economies (Florida 2002; Power and Scott 2004). Developing nations are also keen to rejuvenate their cultural assets to create jobs and reduce poverty (Assaf 2005). As globalization increasingly defines how cultural industries operate and who makes gains therein, workers, firms and countries confront the question of how to promote local cultural industries and move up the value chains in the global cultural economy.

The existing literature remains slim pertaining to global-local linkages in cultural industries and its impact on industrial development, despite calls for such study (Barrowclough and Kozul-Wright 2008; Pratt 2008). How are cultural industries organized globally and locally, and how are these two linked with each other? What opportunities and constraints are posed by globalization to the upgrading of firms and

countries? What is the role of the state in promoting cultural industries and how has it changed over time?

This study takes up these puzzles by examining the animation industry in South Korea (“Korea” hereafter) and its changing relationship with global animation production from an historical-comparative perspective from the mid-1960s to the late 2000s. Korea has long been known as one of the major offshore outsourcing suppliers for Western and Japanese animation studios. However, in the face of the restructuring of global markets as well as the changing domestic political economy, the offshore outsourcing-based strategy has given away since the late 1990s to a new development mode based on original production and international coproduction. This path-switching has been accompanied by the Korean state’s dramatic shift in industry policy, from policing local animation to supporting local animation for exports.

Korea’s historical experience in globalization and animation is reflected and contrasted against India’s encounter with global animation production networks in order to illuminate the specificity of Korea’s trajectory as well as their commonalities. By so doing, this study aims to highlight how globalization poses distinctive opportunities and constraints on firms in the two countries at different periods of time. Rather than projecting globalization as a homogenizing force from outside that is imposed on distinctive national industrial systems, this study tries to understand globalization as inherently generating divergent forces that entail multiple pathways for global



integration and upgrading. Each pathway presents unique opportunities and challenges that the others do not, and the structure of what is available or not is reconfigured over time by different waves of globalization. Which pathway is taken depends on the strategic responses of local actors as much as it is influenced by globalization's challenges.

### **1.1 Research Questions**

This study strives to answer the following questions in the context of globalization and the development of the animation industry in Korea and India:

- How does globalization shape the structure of the global animation industry? How did two waves of globalization differently reshape the structure and geography of the industry? To what extent are animation trade flows driven by transnational media giants? To what degree are upgrading opportunities available to developing country producers? (Chapter 3)
- How has the Korean animation industry evolved over time? What are the major characteristics of the industry at different stages in terms of global-local linkages, the state of local production, and key industrial actors? What has driven the shift from one to other mode of development? (Chapter 4)
- What were the differences between American and Japanese animation outsourcing chains in Korea? To what extent did they affect the upgrading

outcomes of Korean suppliers in each value chain? How have international coproduction chains, as compared to offshore outsourcing chains, changed the dynamic of global-local linkages? (Chapter 5)

- How has the Korean state engaged in the animation industry in terms of affecting local producers' integration to global production networks? Has its developmental role in animation declined, stayed the same, or been reconfigured after the economic crisis of the late 1990s? (Chapter 6)
- What is the difference in the development trajectory of the animation industry between India and Korea? How have global-local linkages changed and what types of upgrading paths have emerged in Indian animation? How different is the state-industry relation in animation between India and Korea? (Chapter 7)

## **1.2 Main Findings**

The animation industry has been globalized over the last four decades, with relatively two distinctive waves of globalization (Chapter 3). The first wave of globalization from the 1960s up until the 1980s mainly involved the vertical disintegration of Hollywood and the offshore outsourcing of animation production. This eventually led to the rise of global production networks linking the United States and East Asian countries as well as the growth of regional supply chains centered on Japan. The second wave of globalization beginning the 1990s has restructured the existing

global production networks. It involved the consolidation and global expansion of media conglomerates, the relocation of animation offshore outsourcing, and the growth of animation production and consumption in emerging economies. These new developments have generated a more complicated dynamics in global cultural flows and the governance of animation value chains.

In this historical context of global animation production, the evolution of the Korean animation industry and its global linkage offers an opportunity for a critical assessment of the existing theories of global cultural industries (Chapter 4). A strong influence of imported animation in Korea for the entire period under study and its crippling effect on local production in much of the earlier periods support the argument of cultural and media imperialism. However, the recent growth of original production in Korea and India provides evidence for the changing geography of animation production in the second wave of globalization, supporting the theory of decentralized and regionalized cultural flows. This study also finds a striking international division of animation production throughout the period and significant power inequality between lead firms and local suppliers, adding evidence to the idea of new international division of cultural labor (NICL).

At the same time, this study argues that the existing models of global cultural industries can be enriched by a global value chain (GVC) approach. By analyzing the ways that decentralized production are organized and governed by lead firms, this

study shows that in contrast to the portrayal of local actors as passive by cultural and media imperialism, they were deeply involved in the production and circulation of imported animation. Also, it argues that regionalized cultural production and consumption do not necessarily favor the upgrading of local suppliers, as the regional cultural networks argument suggests, if regional chains present slower and more fragmented upgrading opportunities than global chains, as shown in Japanese outsourcing chains in Korea. Finally, this study argues that, unlike the portrayal by NICL, the international division of cultural labor is neither static in terms of how labor is divided nor unitary with regard to how division of labor is governed. While Western and Japanese lead firms have continued to maintain their power over Korean suppliers, upgrading within this uneven relationship, such as a movement to bigger-budget, larger-volume projects, had significant consequences on the growth of Korea's animation exports.

Building upon recent insights with respect to the multiplicity of GVC governance structure, this study compares three different animation value chains in Korea, finding more nuanced upgrading outcomes than what NICL would suggest (Chapter 5). The finding shows marked differences between U.S. and Japanese outsourcing chains in terms of chain structure, division of labor, firm characteristics, and chain governance. While both chains were the outcome of the first wave of globalization in animation, differences between the United States and Japan in terms of their domestic production

systems and outsourcing strategies have made the two chains widely distinctive from each other in GVC governance, generating different upgrading patterns among the two segmented supplier groups in Korea. A quick build-up of large-scale production by consolidated suppliers in the U.S. chains (yet their equally quick decline later) exhibited a stark contrast to a much slower pace of upgrading by a large group of fragmented Japan-oriented suppliers in small-scale projects.

This upgrading picture has become more complicated during the second wave of globalization as some of the outsourcing chains retreated from Korea and original production and international coproduction emerged as new modes of upgrading. International coproduction chains, in particular, present a different GVC structure from those of the outsourcing chains. They demand Korean producers to take a more risk-bearing, high-commitment approach in exchange for the expectation for higher returns and greater visibility in global markets. While the chain structure varies by project depending on how the coproduction deal is structured, power relations between the partner firms are critical to determine the gains captured. Regional coproduction provides a lower entry and upgrading barrier than global ones, despite some of the similar limitations as in Japanese outsourcing networks.

Finally, as for the role of the state, the findings of this study support the reconfiguration argument that the developmental state, at least in Korea, is not in eclipse but bolstered with a new mode of state intervention and developmental alliance

(Chapter 6). This transformation of the state is not solely affected by global forces but equally influenced by the dynamism of the domestic political economy. The move of the Korean state from policing local animation with little industrial support to chaebol-oriented promotion and eventually to a development model based on small-and-medium enterprises (SMEs) cannot be explained without considering the changing relationship between the state and the chaebol. This study also finds the increase, not decrease, of sector-specific industrial policy, particularly after the economic crisis of the late 1990s, refuting the argument of the Korean state's transformation into a neoliberal or regulatory state. As the entrenchment argument suggests, state-led, export-oriented development strategies have not been in decline but rather strengthened and extended in the face of growing competitive pressures on Korean firms at home and abroad.

The way such policy is devised and implemented, however, is not the same as in the past, which supports the reconfiguration perspective over the entrenchment argument. Industrial policy has been narrowed onto the sector level and strategically engaged in specific chain nodes within the sector. And state intervention relies on a different mix of government-sponsored and private-partnered programs at different chain nodes. This policy reform has been supported, organizationally, by a newly-minted developmental alliance based on original animation exports and the re-embedding of the state in specialized supportive agencies and new policy constituencies

among export-oriented SMEs, which has been little highlighted in the existing developmental state literature.

### **1.3 Theoretical Contributions**

Overall, the findings of this study suggest that we understand globalization as a differentiating and restructuring process. This perspective, on the one hand, rejects the idea of globalization as a homogenizing, converging force. More importantly, it proposes a slightly different perspective from the existing divergence literature.

Countries are divergent in the face of globalization not only because they are different politically, economically and institutionally, but also because globalization per se does create and restructure differences over time. This study tries to disaggregate such differences at the value chains level, and show how varied end markets and chain governance present quite distinctive globalization challenges and upgrading opportunities. At the domestic level, the responses of local actors are neither static nor unitary, not only because they are different in their interests and capabilities, but also because these differences are mediated by the diverse challenges and opportunities embedded in global production systems.

As a result, integration to the global economy does not follow a single road. Multiple pathways are present for entry and upgrading. Offshore outsourcing is one and original production is another. Offshore outsourcing alone has multiple upgrading

ladders depending on who the lead firms are, how the chains are governed, and what the end market is. The same is true for original production. What this understanding suggests is not the mere presence of multiple pathways, but the need to analyze their differences. Not every pathway is equally beneficial or detrimental to the upgrading of local cultural producers. There is an obvious trade-off, say, between a mass-scale, full-package production model versus a small-batch, relational production model.

Globalization does not present a single model to follow, but multiple pathways to take with varying degrees of risk and reward.

This study responds to the call for research on cultural industries from a value chain perspective (Barrowclough and Kozul-Wright 2008; Pratt 2008). The application of a GVC approach highlights the interaction between economic and cultural globalization. This study, in particular, raises the question of the economic foundation of global culture in a “glocalized” form. As many cultural studies scholars point out, we are increasingly living in a more culturally diverse environment as a result of the regionalization and decentralization of global cultural flows (see Section 2.2.2), but this does not necessarily mean that the power of transnational media giants has gotten weaker vis-à-vis local and regional producers. Through the use of an extensive international division of labor beyond a simple outsourcing of labor-intensive tasks and employing the business model based on intellectual property rights (IPRs) and financialization, they maintain their



economic power as governors of glocalized cultural chains, linking local, regional, and global markets more seamlessly than ever before.

From a GVC perspective, this study contributes several different elements. First, it offers additional evidence to a growing body of literature on multiple value chains and governance structures as well as the resulting supplier segmentation (see Section 2.3.3). Further, it highlights different growth patterns and skill-upgrading demands by value chains, which are not fully explored in earlier studies. Second, it casts new light on the interactive relationship between global linkages and local dynamics. Despite the increasing attention to local and regional markets, the existing literature has paid limited attention to how the role of local and regional markets can be viewed by local producers and the state as their global integration has changed, say, from small-scale processing, large-scale outsourcing to original production (see Section 8.1). This study shows that these non-global markets can work not only as alternative markets, but also as a facilitator of the global integration of local producers. How to promote an upgrading synergy between local, regional and global chains is a future policy question.

Finally, this study contributes to the developmental state literature in several directions. First, it provides additional evidence for the reconfiguration argument based on the case of the Korea state, which has been known as one of the most arch-typical developmental states, with the example of a cultural industry. Second, it shows the evolution of the developmental role of the state as production became fragmented and

organized into global production networks. Value chains-based intervention in Korea suggests that a new type of developmental engagement is possible with global production systems. Lastly, while reconfirming the continuing importance of state-industry embeddedness for industrial transformation, this study emphasizes that the relationship is a historically conditioned social construct, pointing to the possible rise of more sectoral-level alliances in alignment with fragmented production systems and sector-specific industrial policies.

## **1.4 Study Design**

### **1.4.1 Cases**

This study addresses three linked cases: animation as an industry case; and Korea as the main country-case with India as a comparative case.

Among cultural industries, the animation industry is of particular interest because it has been one of the earliest globalizers (Lent 1998; Tschang and Goldstein 2004; Yoon and Malecki 2010). Since the mid-1960s, it has evolved through an extensive international division of labor. The global production networks of animation linking developing country suppliers (mostly in East Asia) and advanced country consumer markets have become more complicated as many developing countries entered the networks in the following decades.

The dynamics of the global animation industry, as discussed in detail in Chapter 3, were restructured over the last couple of decades by recent developments in markets and technology. The expansion of Western media conglomerates, the rise of animation production and consumption in developing countries, the relocation of animation outsourcing, and the introduction of new technology like computer animation present new opportunities and constraints to countries, firms and workers in different parts of the world. Therefore, the animation industry provides a unique opportunity to examine the relationship of globalization and upgrading in cultural industries.

Since the late 1960s Korea has been deeply involved in the development of the global animation industry. By the late 1990s, the country was one of the major offshore suppliers for American, European, and Japanese studios along with other East Asian countries like Taiwan and the Philippines (Lent 1998; Yu 1999b). As the global industry has transformed in the 1990s, Korea shifted its development path from an offshore outsourcing-based mode to a new upgrading strategy focusing on original production, making the country one of the leaders in this upgrading path (Kwon 2006; Wong 2006).

At the same time, Korea is an intriguing case in terms of the developmental role of the state in an era of globalization. Traditional bureaucratic developmental states are poorly equipped for new developments in the global economy, such as the rise of network-based international production systems and global competition in knowledge- and creativity-based industries (Ó Riain 2000b). Known for its direct and bureaucratic

form of state intervention (Amsden 1989; Kim 1997), Korea appears to have been the most daunted by globalization challenges when it became one of the epicenters of the East Asian economic crisis of the late 1990s. The ensuing structural adjustments guided by international financial institutions triggered a debate on the fate of the Korean developmental state (Chu 2009; Kim 1999; Pirie 2008; Wong 2004b), as discussed in Chapter 2.

Therefore, Korea's changing positions and strategies in global animation as well as the changing role of the Korean state in industrial development provide a valuable opportunity to address the question of upgrading in cultural sectors: how countries and firms confront the opportunities and constraints for upgrading posed by a dynamic global industry as well as shifts in the national political economy.

This study situates India a comparative case vis-à-vis Korea to show the specificities of Korea's experience and the commonalities of both developing countries with respect to animation in particular and globalization in general. These two countries are vastly different in many aspects; India is much bigger and more populous than Korea, yet Korea has grown much faster and is now richer than India. Korea has been known for the relatively egalitarian nature of its post-war economic development, while India continues to struggle with its highly unequal socio-economic structure. Last but not least, Korea is ethnically and culturally homogenous, whereas India has the vast diversity it has been known for in terms of culture, religion and ethnics.

The divergent paths of economic development between Korea and India have continued to fascinate students of comparative development. Evans (1995), for instance, contrasts Korea as a developmental state that is capable of forging state autonomy and social embeddedness for successful industrial transformation and India, which is viewed as an intermediate state with more intermittent gains. Another sociologist, Chibber (2003) attributes the successful divergence of Korea from India in development outcomes to Korea's effective coordination among state agencies as opposed to India's fragmented state. Compared the two countries' experiences in state-directed development, Kohli (2004) concludes that unlike the growth-oriented, cohesive-capitalist state in Korea, the Indian state was inefficient because of its fragmented-multiclass character.

Notwithstanding the merit of these comparative exercises at the end of the last century, recent events provide an interesting twist in terms of the development trajectories of these two countries. India has become one of the major emerging economies with a strong presence particularly in information technology (IT) and software services, including computer animation. At least for those sectors, India has become a more well-known and popular business destination than Korea.

While India's development in animation per se presents a set of intriguing questions, i.e., why and how it could happen, this study has a more limited and modest ambition regarding the Indian case. By reflecting Korea's experience against how India has responded to a different form of the same challenges, it attempts to cast light on the

specificity of Korea's experience relative to India's as well as the commonality underlying the two country cases. If the former speaks about the Korean animation industry and the way it is integrated into global cultural industries, the latter tells us about the structure of the global cultural economy and how it unfolds differently in different contexts, specifically in Korea and India, at different points in time.

### 1.4.2 Data Sources

Data for this study came from two main sources: (1) secondary literature, including government documents, industrial reports, scholarly work, and newspaper articles; and (2) the author's field interviews in Korea, India and Japan in 2008 and 2009, with executives and managers in animation studios, government policymakers, researchers and industrial experts. The goal of data collection was to get the best available information on the animation industry mainly in Korea as well as in India. For secondary documents on the Korean animation industry, the following types of materials were collected and used for analysis:<sup>2</sup>

- Industry reports: Many reports and documents on the animation industry have been published in Korea, particularly since the mid-1990s when the public interest in animation as an industry began to accelerate. Most of them were

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<sup>2</sup> The availability of data for each phase of the Korean animation industry (see Chapter 4) is uneven; the Korean animation industry until mid-1980s suffered from scattered records and descriptions which, albeit valuable, are often based on a few people's memories.

published by government agencies, notably, the Ministry of Culture, Sports and Tourism (MCST); the Korea Culture and Tourism Policy Institute (KCTPI), MCST's policy research arm; and the Korea Creative Content Agency (KOCCA), a government-funded supporting agency for cultural industries. Government reports prior to 1990 regarding the animation industry and government policy on the sector were rare and the information scattered, , as compared to the last decade when the Korean government began to publish annual white books on cultural industries as well as on the animation industry. These annual white books provide information on the number of firms, sales, and employment, along with the value and destination of their imports and exports at the industry level. Most of the government reports are publicly available at the KOCCA library and the National Assembly Library at Seoul, or through the KOCCA website.<sup>3</sup>

- Books and articles: Several books and academic theses have been published (mostly in Korean, but some in English) on the history of Korean animation and cartoons (Han 1995; Hō 2002; Hwang 1998; Ch'oe 1995; No 1995; Yoon 1995; Yu 1999a). Academic theses and research articles on the Korean animation industry from an historical perspective were not many, particularly on offshore

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<sup>3</sup> <http://www.kocca.org/>

outsourcing, with notable exceptions (No 1995; Yoon 1995; Yu 1999a; Lent and Yu 2001).

- Newspaper articles: Most of the newspaper articles were collected from a local news archive, the Korean Integrated News Database System (KINDS), which provides an online archive of Korean newspaper articles from the early 1990s.

As for India, the same types of information sources were used. Overall, very limited documents are available regarding the animation industry prior to the 1990s. My visit to the National Film Archive at Pune, the central archive on India's film and television industry, produced very little, in part reflecting a limited historical interest in the animation sector. The situation since the late 1990s has been much better. Unlike Korea, the Indian government has produced very few publicly available documents on the industry, partly reflecting differences in the state's engagement in the industry in the two countries. Two major industry associations, the National Association of Software and Services Companies (NASSCOM) and the Federation of Indian Chambers of Commerce and Industry (FICCI) provide annual assessments of the Indian animation industry. Finally, Indian newspaper articles on the animation industry were collected via *Factiva*, a business information and research tool to provide access to various newspaper archives, as well as from other news sources, including Indian news website specializing in animation.



While much of the current status of the industry came from secondary documents, as noted above, the animation industry, particularly before 1990 in both countries, is not well documented, and little written information on offshore outsourcing is available. Furthermore, the commercial linkages of animation studios with other domestic and foreign firms are rarely subject to scholarly research, and they continuously evolve over time. Therefore, research on these topics for this study had to rely on field interviews with industry actors, from studio executives and managers to freelancer animators, from TV networks to foreign buyers, from government officials to business association representatives.

Field interviews were conducted in June 2008, January through July 2009, and June 2010 in three countries: Korea, India and Japan. The focus of those interviews was to collect the best available information on the past and current state of the industry from various human sources to try to gain a full picture of the industry. For the sample of firms that were interviewed, a snowball technique was used. Given the little information available to the researcher at the outset of field research on the entire population as well as the characteristics of individual firms, it is a practical approach commonly used in other industry-based studies. Studio contacts were provided by one or more previous interviewees and directly contacted by the author via email, phone or both. In Korea, the Korea Animation Producer Association (KAPA) provided some of the initial contacts to its member studios. The author was also invited to the KAPA's

annual workshop in June 2008 to recruit studios to be interviewed. In India, contact information was gathered initially through a few personal contacts and then expanded over the course of field research. Some studios were contacted by the author without any referral.<sup>4</sup> In most of the firm interviews, the person interviewed was above the rank of general manager, and in many cases the interview was conducted with the Chief Executive Officer (CEO) or Managing Director.

All the interviews were conducted by the author in the most appropriate languages; Korean and English was respectively used in all of the interviews in Korea and India. For the Japanese interviews, English or Japanese (via translator) was used. As long as the situation permitted and the respondent consented, interviews were digitally recorded and later transcribed by the author; otherwise notes were taken by the author. For the rest of this study, each interview is identified by the date it was conducted on, with the name of the person interviewed and her or his affiliation not provided in order to remain the person anonymous.

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<sup>4</sup> For this reason, the firms interviewed are not a representative sample. The firms are more often selected for a strategic reason; major studios (in terms of market share or exports) in the past and the present are preferred, although some of them could not be reached or interviewed because either they are now closed or they declined to participate. The strategic focus of the sampling evolved throughout the field research as new interesting topics emerged; for example, the difference between U.S. and Japanese outsourcing chains, which is examined in Chapter 5, was not known to the author when he started to conduct interviews because no previous research on Korean animation addressed the topic. As important issues were identified over the course of field research, sampling decisions were made accordingly.

In Korea, a total of 23 people were interviewed in June 2008, and January through July 2009 (two of them were interviewed twice). Thirteen animation studios were interviewed, all located in Seoul, Korea's capital city. The remaining ten interviews involved distributors (including a TV network), an industry association, researchers, educators and former or current government policymakers. Among the animation studios interviewed, nine studios previously or currently have been involved in offshore outsourcing for American, Japanese, or both markets (three Japan-oriented studios; three U.S.-oriented studios; and three studios for both chains).

In India, 36 people were interviewed from May through June 2009 and June 2010 (everyone was interviewed only once). Among them, 18 animation studios, two private training institutes, two multinational channel providers, and three trade associations were interviewed, along with two government officials, one editor-in-chief in an animation trade journal and one freelancer animator.<sup>5</sup> In terms of the size of employment, nine of the animation studios interviewed are considered to be large (150+ employees); two are medium (40+) and seven are small (under 40 employees). The studios are located in Mumbai, Pune, Hyderabad, Bengaluru, and Thiruvananthapuram (a.k.a. Trivandrum).

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<sup>5</sup> The total number of interviewees does not accord to the sum of the entities interviewed because some of the interviewees belonged to the same firm or organization. They were interviewed either as a group or individually.

In addition, three more people were interviewed in Japan on March 2009: one from a second-tier Japanese animation studio which has been in a long outsourcing relation with Korean studios<sup>6</sup>; one from an industry association; and one from KOCCA Tokyo's office.

The major components of interview questionnaires were customized to the type of the interviewee. For the animation studios, questions relating to the following topics were asked: 1) an overview of the firm; 2) firm structure, ownership, and employment; 3) production and market position; 4) inter-firm relations; and 5) perceptions and perspectives of the business environment, including state policies. For the policymakers, the following topics are addressed: 1) an overview of the organization; 2) laws, policies and regulations; and 3) the process of policy-making and implementation.

While the interviews were semi-structured so as to cover the aforementioned topic areas across different firms and organizations, questions were customized, modified and expanded according to who the interviewee was in order to get the best relevant information out of the person. For example, in cases where the interviewee in one studio had prior experience in other studios and a broad knowledge of the overall industry, the person was asked questions beyond those about the specific studio the person was affiliated to as long as the situation permitted. Also, because the interviews

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<sup>6</sup> For first- and second-tier among Japanese animation firms, see Section 5.2.2.

were not designed to collect comparable data across studios but to collect the best information on the studio and the industry to help us understand the historical development of the industry in Korea and India, any new topic that emerged in previous interviews and was found worthwhile to further explore was included in the subsequent interview questions as long as it deemed appropriate. While this interview design approach obviously limits the comparability of data across studios, it provided more flexibility to address previously underexplored topics, such as the differences between U.S. and Japanese supply chains, or emerging issues, such as international coproduction, which became the centerpiece of this analysis.

### **1.4.3 Historical-Comparative Approach**

The primary method of this study is a historical analysis of a single country-industry case, assisted by an unbalanced country-case comparison.

The single-case study, or “within-case” analysis (Rueschemeyer 2003) as opposed to “large-N” comparison,<sup>7</sup> involves an in-depth examination of social and historical processes using mostly a single country (Bradshaw and Wallace 1991). Although this method, and “small-N” studies in general, have been under scrutiny for limitations in

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<sup>7</sup> Single-case studies are part of so-called “small-N” comparisons, an endeavor to discover the patterning of social life through a careful comparison of relatively few cases (Ragin and Becker 1992). Despite some skepticism (King et al. 1994; Lieberon 1991) regarding its merit and disagreement among researchers over the goal of the approach (Kiser and Hechter 1991; Gorski 2004), it remains a well-established method for social scientists to examine large-scale historical processes (Tilly 1984; Mahoney and Rueschemeyer 2003).

generalizability and theory-building compared to “large-N” studies (Mahoney 2003),<sup>8</sup> there are clear advantages to conduct within-case analysis. First, many single-country studies are indeed comparative because they implicitly compare their chosen case to others or to a theoretically decisive ideal-typical case (Bradshaw and Wallace 1991; Ragin 1987). Second, in some cases, a specific case carries more weight than others, as exemplified by the important role of “negative,” “least likely,” and “critical” cases in refuting and qualifying existing propositions (McKeown 1999; Rueschemeyer 2003; Emigh 1997; Paige 1999). Finally, a single case does not necessarily mean a single observation, as often misidentified (Rueschemeyer 2003; McKeown 1999). Without relying on explicit or implicit cross-case comparison, good historical analysis “goes through frequent iterations of confronting explanatory propositions with many data points” in a single case (Rueschemeyer 2003: 318).

This study further complements the single case study of the Korean animation industry by comparing it to the same animation industry in a country that has been oft-compared with Korea, i.e., India. While the two countries have been usually found more

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<sup>8</sup> Most of the skepticism of small-N comparison points to the following criticism: 1) the method has a limited ability to generate generalizable theoretical arguments due to its small sample size; and 2) some efforts to overcome this limitation, notably the use of Mill’s methods of agreement and difference, are flawed because with small sample size researchers cannot sort out the real cause (Liebersohn 1991). See McKeown (1999) for the critique. This skepticism has led to a debate among researchers over the place of (general) theory in comparative historical research. Some advocate the centrality of causal explanation deduced from general theory (Kiser and Hechter 1991), while others propose alternative views regarding theorization; “constructive-realist model” (Gorski 2004), “historically conditional theory” (Paige 1999), and “intrinsically historical theory” (Calhoun 1998).

contrasting than similar in terms of economic development trajectories (Evans 1995; Chibber 2003; Kohli 2004), the primary goal of this comparison is to highlight the specificities of Korea's experience by projecting it against another case, thereby increasing the "visibility" of one structure against the other (Bendix 1977[1964]).

While based on country-case comparison, this study is equally guided by recent attempts in social sciences to capture and analyze global/transnational processes.

Globalization poses challenges to conventional cross-national comparisons (Burawoy 2000). Increasing flows of capital, labor, and technology and the emergence of supranational institutions and organizations raise the question of what should be a proper unit of comparison. Nation-states are no longer conceived as the sole container of distinctive institutional and cultural configurations, nor *independent* from one another in time and space; rather, they are interconnected within and coevolve with trans-societal structures (Tilly 1984).<sup>9</sup> In this circumstance, the central task is to "explain similarities or differences among those locations [states, regions, or cities] as consequences of their relationships to the whole," which Tilly (1984: 126) calls "encompassing comparisons."

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<sup>9</sup> This does not mean the nation-state has become irrelevant, as some "hyper-globalists" suggest. On the contrary, as a central institution its relevance persists and becomes more obvious, while the nation state transforms itself (Held et al. 1999). What this means is that social processes increasingly encompass national – both geographical and institutional – boundaries and extend into the supra- and sub-national levels. It does not mean that transnational processes are historical unprecedented. Despite disagreements regarding the historical origin of globalization, it is widely agreed that the current wave of globalization has comparable historical precedents (Hirst and Thompson 1996; Arrighi 1994).

The whole, however, does not have to be presumed, as it would be in world-system theory. It rather emerges through “comparative analysis of ‘parts’ as moments in a self-forming whole” (McMichael 1990: 386), which requires a constant reiteration in analysis between the global and the local, or the whole and parts.<sup>10</sup> This is not denying the existence of the common dynamics of global/transnational processes or its comprehensibility. Rather, this endeavor seeks to gravitate away from generating general theory by comparing more or less uniform cases towards giving substance to an historical process by focusing on the distinctive unfolding of the processes in different time and space (McMichael 1990). In the context of comparative industrial development, the research goal is to comprehend divergent outcomes across countries and sectors and understand the specificity of each outcome as well as the commonality of all the outcomes, rather than seeking for a unitary, general account of industrial success or failure across time and space (Guillen 2001b). By so doing, it aims to highlight “the multiplicity of structures, the under-determination of outcomes, and the complex constitution of human agency” (Adams et al. 2005: 66).

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<sup>10</sup> Analogous efforts have been made with distinctive concepts: for example, “extended case method” (Burawoy 1998) in sociology, and “multi-sited ethnography” (Marcus 1995) in anthropology.



## **1.5 Organization of Thesis**

The rest of this study is organized as follows: Chapter 2 discusses three theoretical pillars of this study: globalization and cultural industries, varieties of global value chains, and globalization and developmental states. The literature regarding each topic is reviewed with associated theoretical expectations presented. Chapter 3 analyzes the persistence and transformation of the global animation industry over the course of two waves of globalization. The next three chapters provide an historical analysis of the Korean animation industry from three different angles: developmental trajectories (Chapter 4), comparison of three animation chains (Chapter 5), and the role of the state (Chapter 6). These chapters are followed by the examination of the historical trajectory of the Indian animation industry in Chapter 7. Each of three sections in this mini-comparative chapter is the thematic companion of each of the previous three chapters on Korea. Chapter 8 draws theoretical and policy-related implications from this study about globalization and development in the global cultural economy.

## **2. THEORETICAL FRAMEWORK**

### ***2.1 Introduction***

This chapter approaches the question of globalization and development in cultural industries from three different theoretical directions: first, how globalization changes the structure of cultural industries and the direction of cultural flows and power relations therein. This involves a great deal of the literature cutting across the sociology of culture and globalization, cultural and media studies, and international communication research. Reviewing the key theories on the globalization of cultural industries, this study highlights globalization as a restructuring force of global cultural value chains that offers distinctive opportunities and challenges to countries and firms in different parts of the chains across time and space.

The second point of theoretical engagement is theories of GVC governance and upgrading. Here, we review GVC literature with a focus on the divergence of value chain governance and differentiated upgrading opportunities. It examines how the current discussion can be expanded by incorporating the idea of the varieties of GVCs and multiple governance structures, and how they unfold as globalization restructures the existing chain structures.

The third and final leg of the theoretical pillars is to revisit the developmental role of the state in an era of globalization, particularly theories of the East Asian

developmental state. Reviewing three competing arguments concerning the fate of developmental states, i.e., eclipse, entrenchment, and adaptation, this study provides an analytical framework to test these theories against the Korean case. It proposes an alternative theoretical lens to explain divergent responses by the state against globalization challenges.

Table 1 summarizes the three key theoretical domains that this study attempts to engage in, along with the key theoretical questions and the major theories reviewed in this chapter. Each sub-section to follow addresses these three domains one by one.

**Table 1: Three theoretical pillars of the study**

Theoretical pillars	Key theoretical questions	Major theories reviewed
2.1. Globalization and cultural industries	How does globalization shape the structure of global cultural industries?	<ul style="list-style-type: none"> <li>• Cultural/media imperialism</li> <li>• Regional cultural networks</li> <li>• New international division of cultural labor</li> <li>• Global cultural value chains</li> </ul>
2.2. Varieties of global value chains	How does GVCs vary in terms of governance and how does it affect upgrading?	<ul style="list-style-type: none"> <li>• Theories of GVC governance and upgrading</li> <li>• Theories of Asian production networks</li> <li>• Multiple governance structure</li> </ul>
2.3. Globalization and developmental states	Do developmental states retreating, reinvigorating, or reconfigured?	<ul style="list-style-type: none"> <li>• Retreat argument</li> <li>• Entrenchment argument</li> <li>• Adaptation/reconfiguration argument</li> </ul>

## **2.2 Globalization and Cultural Industries**

Despite the globalization of cultural industries, there is little sociological research on the production of culture at a global scale (Hesmondhalgh 2008: 566). Relevant

literature is somewhat scattered across different fields, notably, the sociology of culture, the sociology of globalization, economic geography, and cultural and media studies.<sup>1</sup>

Canvassing the literature, the cultural sociologist Diana Crane (2002) proposes four theoretical models of cultural globalization: 1) cultural/media imperialism; 2) cultural flows/networks; 3) reception theory; and 4) cultural policy strategies. Although not directly addressing “industrial” and “upgrading” aspects of cultural globalization, her distinction nicely captures major streams of theoretical arguments on cultural globalization, whose views differ in terms of: 1) process of cultural transmission; 2) principal actors and sites; and 3) possible consequences.

Building upon her schema, this study reviews four different theories on global cultural industries: 1) cultural/media imperialism; 2) regional cultural networks; 3) new international division of cultural labor (NICL); and 4) global cultural value chains. This choice of theories, despite some similarity, differs from Crane’s because of this study’s emphasis on the structure of global cultural industries at macro- and meso-levels, as opposed to micro- or audience-level, as well as its interest in development and upgrading. These theories are differentiated according to four dimensions: 1) the structure of global cultural industries; (2) major actors; (3) the degree of upgrading

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<sup>1</sup> There is a long tradition in sociology of analyzing cultural industries and markets, spearheaded by sociologists like Paul DiMaggio (1994). Despite its importance, this does not consider it because of the literature’s overall disinterest in the international dimension, although some of its insights are recently appropriated by Lizardo (2008) in the context of the global cultural economy.

opportunity; (4) major upgrading challenges. While not every one of the theories are elaborated to the same degree all across these dimensions, (3) and (4) in particular, each has clear implications on upgrading given its model of global cultural flows.

The following discussion starts from cultural/media imperialism as a vocal critique and prominent macro-level theory of cultural globalization since the 1960s and proceeds to “middle-range” theories coming in the last couple of decades out of critiques of cultural/media imperialism from two different angles. Finally, it highlights how GVC approach can be applied to distinctly analyze global cultural industries with a different set of theoretical expectations.

### **2.2.1 Cultural/Media Imperialism: A Critique of Cultural Globalization**

Cultural/media imperialism has been best known for its social scientific critique of cultural globalization and as a popular discourse since the 1960s (Hesmondhalgh 2002: 174; Crane 2002: 2). It started as a critical response to the post-war expansion of Western (mostly American) media into non-Western worlds, which people found put indigenous culture under threat and cultural diversity in peril.<sup>2</sup> This cultural expansion was based on the idea of “free flow of information,” whereby the free exchange of cultural products across national borders would facilitate mutual understanding among cultures and

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<sup>2</sup> Simultaneously influenced by a tradition of Marxist political economy, cultural imperialism was also associated with a critique of mass media culture in the Western society around the same period (Lizardo 2008; Hesmondhalgh 2008: 553), which can found in some of the more current thinkings, such as “McDonaldization” (Ritzer 1996).

promote democracy based on free speech and free market. This euphemism of “global villages,” or a cultural modernization perspective, was advocated by Western governments and media conglomerates in postwar global communication debates (see Chakravartty and Sarikakis 2006, ch.2).<sup>3</sup>

Cultural/media imperialism criticizes the postwar cultural globalization because it conceals the unequal power relations and unbalanced cultural flows embedded in the trend. While the concept is quite broad and generic, referring a wide range of similar phenomena (Tomlinson 1991: 2-3)<sup>4</sup>, its main premise is that global cultural flows are dominated by powerful core, Western countries, and Third World countries in the periphery of the capitalist world-system have little control over their cultural development (Tomlinson 1991: 37). The free flow of cultural products, it argues, only results in the massive influx of Western media and the destruction of indigenous culture, thereby forcing peripheral nations into both economic and cultural dependency (Schiller 1976; Herman and McChesney 1997). Westernization (or more precisely

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<sup>3</sup> It is well-known that the Motion Picture Association of America (MPAA) played a critical role in supporting liberalized cultural trade in the General Agreement on Tariffs and Trade (GATT) negotiations. “The official line of the MPAA and the U.S. Department of Commerce is that international trade in cultural products should proceed in as open and as free a manner as possible, and should not be subject to any special restrictions” (Scott 2005: 154-155).

<sup>4</sup> Hamm and Smandych’s edited volume (2005), for example, applies the concept of cultural imperialism to a wide range of domains, including knowledge creation, education, language use, law and ethics.

Americanization) as a result of unbalanced media flows is expected to lead to the homogenization of global culture, endangering cultural diversity (Crane 2002: 3).<sup>5</sup>

The original notion of cultural imperialism was later reformulated into media imperialism, and the emphasis shifted from Western governments to transnational media conglomerates as the key actors of cultural domination (Boyd-Barrett 1998). The core premise has remained the same, however. Global cultural flows are unilateral, from the West to the Rest, and the major actors driving the flows are transnational media giants supported by their Western governments. Western society is the sole originator of cultural messages, with peripheral nations remaining at the receiving end. Considering the political, economic and cultural dominance of the West over the rest of the world, the latter's chance to upgrade their positions in global cultural industries is considered to be very slim, if not impossible. The theory argues that the strong market power of transnational media companies continuously undermines indigenous cultural industries, which suffer from the smaller size of national and local markets compared to transnational corporations (TNCs) whose operations span the globe, and local producers that lack capital and control in marketing and distribution.

The key contributions of cultural/media imperialism are that, first, it problematizes the power inequality between advanced Western countries and non-

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<sup>5</sup> See Dorfman and Mattelart (1975) for a classic example of applying the theory of cultural imperialism to animation and specifically Disney animated cartoons.

Western, developing nations in the global cultural economy. It criticizes free market-based cultural globalization for its political, economic and cultural domination by the West. By so doing, it sheds light on the role of the global power structure and TNCs in shaping what is available for a developing-country audience. Second, it provided a theoretical rationale for an international initiative to remedy the imbalance of global cultural flows, known as the “New World Information and Communication Order” (NWICO) in the late 1970s and 1980s, although the effort was shattered mainly by the opposition of the U.S. government and subsequently the policy influence of cultural imperialism waned with the rise of neoliberalism in cultural policy (Mattelart 1994; Chakravartty and Sarikakis 2006).<sup>6</sup>

Theoretically, cultural/media imperialism has faced criticism on two fronts: its audience model and the core-periphery model. First, it is criticized for its implicit premise of passive reception, where the Third World audience is considered to have no agency and simply reacts to Western media content, a kind of behaviorist assumption (Lizardo 2008: 17). Reception theory in media and communication studies, for instance, argues that global media are not as omnipotent and audience in the periphery is not a

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<sup>6</sup> The idea of NWICO was represented by the MacBride Report, titled “Many Voices, One World,” published by the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 1980. The U.S. government disagreed with the report and NWICO in general because it saw the idea detrimental to free speech and private media operations. At the end of 1984, the Reagan administration withdrew its UNESCO membership.



passive recipient as portrayed by cultural/media imperialism, highlighting negotiation and opposition on the side of the audience as opposed to domination by media TNCs. As shown by studies of how American soap operas such as *Dallas* were received by audiences with different nationalities and socio-economic backgrounds, audiences actively reinterpret imported culture using their own socio-cultural prisms (Liebes and Katz 1990; Fiske 1987). Their actual behavior or values do not necessarily reflect the Western media content they are exposed to (Derné 2005). What is often found in developing countries is less outright Western culture than a mixed form of Western mass media content and local culture, the phenomenon called “hybridization” (Nederveen Pieterse 1995; 2009).<sup>7</sup>

Second, critics have also found the core-periphery model of cultural/media imperialism too static and not reflecting new developments in the global cultural economy (Scott 2005: 165-6). The unidirectional cultural flows the model is based on are not necessarily empirically supported. For example, the share of imported U.S. or Western media content, in fact, has been declining over the last few decades in many developing countries (Straubhaar 2007). In addition, media content is increasingly exported from developing countries to regional and world markets to serve audiences in

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<sup>7</sup> Hybridization is defined as “the ways in which forms become separated from existing practices and recombine with new forms in new practices” (Rowe and Schelling 1991: 231; see also Nederveen Pieterse 2009: 70-75).

non-Western worlds or growing immigrant populations in advanced economies, with the notable example of *telenovelas* – TV serial novel drama popular in Latin America (Sinclair et al. 1996; Straubhaar 1991; 2007). New realities as such have questioned the model of unilateral global cultural flows presented by cultural/media imperialism, prompting a set of alternative theories, which are discussed below.

### 2.2.2 “Middle-range” Theories of Global Cultural Flows

Despite their aforementioned difference, in fact, cultural/media imperialism and reception theory are based on the same core-periphery dichotomy, or a “the West vs. the Rest” perspective (Keane 2006: 840). Whether the West dominates global culture, as the former argues, or the Rest appropriates imported culture in its own way, as the latter suggests, they are grounded in the common premise that cultural products flow from the West to the rest of the world, only differing about whether the effect of Western media on developing country audience is “destructive” or “feeble” (Guillen 2001a).

A critique of the core-periphery model has led to the formulation of a set of “middle-range” theories “between political economy and microsituational reception studies” (Cunningham and Jacka 1996: 22). Although the importance of the West in global media flows is hardly deniable as exemplified by the persistent commanding power of Hollywood (McDonald and Wasko 2008; Miller et al. 2005), the new theories aim to grasp the latest development of global cultural industries (Crane 2002; Havens et

al. 2009; Bielby 2010). Given the focus of this study on cultural industries, two strands are particularly relevant: regional cultural networks and the new international division of cultural labor.

The “regional cultural networks” theory entails several different lines of scholarly attention to decentralized and multi-polar cultural trade structures, encompassing media industry studies (Tomlinson 1997; Straubhaar 1991; Sinclair et al. 1996), economic geography (Scott 2005), and cultural studies (Chua and Iwabuchi 2008; Iwabuchi 2010b; a). Generally, the theory views global cultural flows as a two-way network structure surrounding major regional agglomerations, or global cultural cities, in Hollywood, Europe and Japan, but also India (notably Bollywood), China and Latin American countries. This emergent “polycentric” structure of global cultural industries is a combination of multiple processes. The rise of national production in the periphery and exports to regional and global markets has been noticed since the 1980s in Latin American TV industries (Sinclair 1992), and more recently the circulation of film, animation and TV dramas across East Asia from Japan, Hong Kong and South Korea has drawn a great deal of attention (Chua and Iwabuchi 2008; Iwabuchi 2004; Keane 2006). Diasporic audiences’ consumption of cultural products from the home country is another example of non-West-oriented cultural flows, as in the case of Indian films consumed in Europe and North America (Pendakur 2006). These new developments are

presented as evidence of growing cultural flows neither originated in nor mediated by Western countries.

The key actors in this regionalization theory are not Western governments and transnational media capitals, but regional media capital and local producers who play a key part in the production and circulation of media content around geo-linguistically proximate regions. The ascendance of multimedia conglomerates outside Hollywood, such as Europe, Asia and Latin America, is an important trend. They are increasingly operating as globally as American media giants, making efforts to contest in global markets (Scott 2005: 165, 171). Furthermore, local gatekeepers and innovators play an important role in localizing global content and globalizing local content. What they do is to refashion imported formats and genre in ways that appeal to local experiences and cultural understanding. Take *Who Wants to be a Millionaire?* Its program format originated in Britain and was later adapted into 80 versions across the world. Its global success is attributed to an apt adaption of the simple quiz show to cultural themes familiar and attached to local audiences, such as Pan Arabism in the Middle East and socio-economic mobility in Mexico (Bielby and Harrington 2008: 112-114). Even if a program format is imported from the West, it is often local gatekeepers who turn it into a local success.

In terms of upgrading opportunities, the regional cultural networks theory points to much wider channels for advancement than does cultural/media imperialism.

Targeting geographically, linguistically or culturally proximate markets is certainly a feasible export strategy, as exemplified by the success of the *telenovela* in the Spanish-speaking world (Bielby and Harrington 2008) and that of Japanese and South Korean TV dramas in East Asia (Chua and Iwabuchi 2008; Iwabuchi 2004). Localizing a globally successful genre or format is another way to go beyond simply importing Western media content, as shown in the quiz show case noted above. In a nutshell, “glocalization” is considered a successful pathway to leverage the distinctive differences of local producers from Hollywood majors to advance in global markets. However, cross-cultural translation is the most challenging task for upgrading. As transnational media giants increasingly employ various strategies of attuning their vast creative resources to local tastes, it would be difficult for local producers in developing economies to face off with such capital-intensive, marketing-savvy players without any distinctive leverage to compete. Therefore, the key challenge for producers in developing countries is how to create the right mix of global and local culture to advance their positions in global cultural markets against mighty Hollywood and other regional cultural powerhouses in advanced economies.

The extent to which decentralized, multi-polar flows indicate a qualitative change of global media exchanges into a more interdependent, even if asymmetric, relationship is subject to debate (Straubhaar 1991). However, the regional cultural networks argument emphasizes that globalization, rather than reproducing the existing

power structure to the West's favor, reconfigures the power structure and generates a new pattern of advantage and disadvantage for different actors in global cultural industries (Tomlinson 1997).

The core-periphery model is also revisited by the "new international division of cultural labor" (NICL) literature from a different entry point. Here, the critical development in reshaping global cultural flows is the fragmentation and geographical dispersion of cultural labor (Miller et al. 2005). Linking the concept of new international division of labor (Froebel et al. 1980) to cultural labor and building upon the argument of "flexible specialization" in Hollywood (Storper 1989)<sup>8</sup>, NICL primarily focuses on the differentiation and globalization of labor processes in cultural production in the pursuit of lower-cost production locations and simultaneously the persistent power of Hollywood to exert its authority over the labor division process (Miller et al. 2005: 120). The major examples of NICL are the outsourcing of animation production to East Asia (Lent 1998), which is subject to this study, and so-called "runaway production" in film, which refers to shooting Hollywood films abroad, notably in British Columbia and Canada (Elmer and Gasher 2005; Gasher 2002).

The global cultural industries portrayed by NICL are a globalized version of Hollywood (Miller et al. 2005: 362). The periphery, unlike in the "the West vs. the Rest"

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<sup>8</sup> For counterarguments to the flexible specialization of Hollywood, see Aksoy and Robins (1992) and Wasko (2003).

model, is not perceived as a separate world from the core that only consumes finished Western cultural goods, but it is rather an integral part of the global cultural industry as the production sites of those goods. In organizing NICL, Hollywood majors are the key players, be it animation outsourcing, runaway production, or international coproduction. Therefore, unlike the regional cultural networks theory, NICL reaffirms the persistent domination of Hollywood in the global audio-visual industry but with a new production logic, i.e., using differentiated and globalized labor. This segmented labor process generates unevenness in terms of the added-value captured among the firms and workers involved.<sup>9</sup>

Given this interest in unequal value distribution, upgrading is the key question to NICL. In fact, NICL is not solely driven by Hollywood but also by local and national governments which use public funding to vie for offshore film location or post-production outsourcing. The question is whether “these nations are developing ongoing cultural capacity and impact, such as technical infrastructure and their own library, or just supply responses to investment, like one-off enterprises that cater to foreign filmmakers.” To put it in political economy’s lingo, it is a choice “between setting up

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<sup>9</sup> Cultural labor distinguishes high-end “above-the-line” tasks encompassing producers, writers, directors, actors and actresses, etc. and mundane “below-the-line” tasks done, for instance, by carpenters, make-up artists and electricians. The first tends to be located in the core region, be it inside Hollywood majors or in the United States, whilst the second is likely to be farmed out domestically or abroad (Miller et al. 2005: 119).

one's own, dynamic bourgeoisie, or remaining locked in a dependent underdevelopment that is vulnerable to disinvestment" (Miller et al. 2005: 139-140).

To this upgrading question, NICL literature does not offer a clear theoretical expectation. However, given its overall critical voice on NICL and the key roles played by Hollywood majors, upgrading opportunities according to NICL are likely to be limited, if not impossible, for countries in "intermediate zones" or "outlying regions" of global cultural industries, since these countries are likely to be stuck in low value-added, labor-intensive outsourcing whereas much of high value-added jobs remain in Hollywood.<sup>10</sup> The latter's domination on high value-added activities, such as creative development, IPRs, finance, marketing, and distribution, can be enlisted as major obstacles to upgrading.

The key strengths of NICL are, first, its emphasis on segmented and globalized cultural labor processes, thereby highlighting a shifting trade pattern in the global economy from final goods to intermediate goods. Second, it illuminates an intertwined relationship between actors in the global economy by showing, for example, that the locational decisions made by Hollywood majors or policy measures implemented by

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<sup>10</sup> In terms of how runway production is geographically distributed, Miller et al. (2005: 127) distinguish the world into three locales: a world center (Hollywood); neighboring intermediate zones of secondary importance (Western Europe, North America and Australia); and outlying regions of labor subordinate to the center (the rest of the world).



national governments can have a far-reaching effect on firms and workers elsewhere (Hesmondhalgh 2008: 564).

Despite their attention to the restructuring of global cultural industries beyond the core-periphery model, these two “middle-range” theories suffer from their own limitations; foremost, they are one-sided at best in analyzing the restructuring. The regional cultural networks theory, while aptly pointing to a growing decentralization of cultural flow, remains focused on the regional exchange of finished cultural products. How they are produced and who is creatively and financially behind them remains in the black box. While NICL appears to be well-positioned to analyze transnational media conglomerates in terms of how they govern “glocalized” media flows, it is theoretically less articulated than it should be, or remains “more as a rhetorical device... than as a theoretical concept” (Hesmondhalgh 2008: 564). NICL’s strong emphasis on Hollywood’s domination and linkages between the Global North and limited attention to so-called “outlying regions” limits its ability to address the dynamics and contradictions of global cultural production networks beyond “simple outsourcing model” (Keane 2006: 836) and the upgrading opportunities and constraints posed to different parts of the networks.

The theoretical challenge, thus, is how to grasp the rise of national and regional cultural industries in conjunction with the expanding influence of media TNCs, the phenomena which appear not as mutually exclusive now as it was initially thought.

Koichi Iwabuchi, one of the prominent authors of East Asian media culture, acknowledges that the rise of regional cultural flows is, in fact, supported by cultural power “decentralized, dispersed and interpenetrated by the transnational alliance of media cultural industries,” whose power anchors in copyright monopoly and international exploitation of cultural labor (Iwabuchi 2010b: 202). This perception echoes with Scott’s (2005: 173-175) prognosis of “the likely continued control by large media conglomerates over significant segments of cultural production for global markets, no matter what the national origins of the dominant firms may be or the geographic sources of their outputs,” through “ever more fine grained inter-firm transactional relations” (2005: 175). This leads us to pursue an integrated framework to analyze both the decentralization and regionalization of cultural production and the expanding power of transnational media giants.

### **2.2.3 Globalization as Restructuring Global Cultural Value Chains**

This section introduces a GVC-based approach as an alternative framework with distinctive and more nuanced meso-level theoretical expectations on global cultural industries in terms of changing global-local linkages and varying upgrading opportunities and constraints. Global value chains refer to “the full range of activities, including coordination, that are required to bring a specific product from its conception

to its end use and beyond” (Gibbon and Ponte 2005: 77).<sup>11</sup> A GVC approach analyzes an industry in its entirety from production to consumption, “script-to-screen” in animation. Firms and workers are involved in one or more nodes in the input-output process, which defines their roles and positions within the chain, and how the chain activities are distributed geographically determines the spatial reach of the chains (Bair 2009; Gereffi 2005).<sup>12</sup> In this regard, GVC analysis and NICL share a commonality in their emphasis on the fragmentation of cultural production processes and the geographical dispersion of segmented functions. Global cultural chains are mostly driven by the logic of the buyer’s market, mostly in advanced economics, but increasingly domestic and regional markets in developing countries.

GVC analysis, however, is distinguished from NICL because of its explicit emphasis on governance structures and upgrading. GVC analysis pays attention to how global cultural chains are governed and offer different upgrading chances to local actors involved. Unlike NICL whose inquiry starts from the question of why Hollywood is still dominating, therefore, GVC analysis does not always presuppose the domination of

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<sup>11</sup> Section 2.3 in this chapter provides a more extensive introduction of GVC analysis and the theories of GVC governance and upgrading.

<sup>12</sup> Some of the previous studies applied a global production network (GPN) approach to global cultural industries (e.g., Johns 2006; Yoon and Malecki 2010). While the approach has a good deal of similarity to a GVC perspective (see Sturgeon 2001 for a comparison of GPNs and GVCs), they generally focused on describing the global scale of a cultural industry, with little attention to the dynamic of global-local linkages and its impact on upgrading.

Hollywood in global cultural chains. Lead firms may not be necessarily Hollywood majors or regional cultural capital; it could be any of them. The chains could be vertically integrated, decentralized into anonymous market actors, or in varying types of networked transactions (Gereffi et al. 2005). Upgrading opportunities are not equally limited or wide-open, but varied by chains depending on GVC governance structures. For each type of GVC governance, the extent to which local suppliers participate in the chains and the amount of the value they capture from the participation are also different.

The key actors in global cultural value chains are lead firms. They determine what is to be produced and how it is produced where and by whom. While transnational media giants from the U.S. market tend to be the lead firms of many global cultural chains, local and regional chains may be driven by other types of lead firms. By addressing such differences, GVC analysis can examine the production process underlying regional cultural flows and whether there is a real discontinuity, as argued by the regional cultural network theory, in governance and upgrading chances between global, regional and local chains.

Different types of cultural value chains, according to the GVC approach, pose different degree of upgrading chances as well as different forms of upgrading challenges. Upgrading opportunities vary mainly by the governance structure of the chain involved. And, the upgrading of local suppliers does not necessarily indicate producing their own cultural products. In a world of fragmented production process, upgrading can occur

also by improving the process and diverting into different markets (Humphrey and Schmitz 2002).

The types of upgrading challenges are shaped by lead firms and GVC governance. For those who supply global buyers, cost and time-to-delivery are likely to be major challenges. For those who want to compete with global or regional media conglomerates, challenges are likely to lie in the need for sizeable marketing and distribution networks as well as creative skills. Creating own products by themselves can require different skills and knowledge for upgrading compared to partnering with other coproduction partners who can complement their weaknesses. In this regard, the GVC approach provides nuanced theoretical expectations on upgrading at a disaggregated level of analysis, i.e., the value chains.

This section concludes with answering how the GVC-based model presents different theoretical expectations from three other theories reviewed – cultural/media imperialism, regional cultural networks and NICL – regarding the structure of global cultural industries, major actors, the degree of upgrading opportunity, and major upgrading challenges (see Table 2).

**Table 2: Theories of global cultural industries**

	Structure of global cultural industries	Major actors	Upgrading opportunities	Upgrading challenges
Cultural/media imperialism	Unilateral cultural flows from the West to the periphery	U.S.-based transnational media conglomerates	Slim (because of the dominant market power of TNCs)	TNCs' market power; small market-size; lacking capital and distributional power
Regional cultural networks	Multilateral flows amongst regional, or culturally-proximate media hubs	Regional media conglomerates; local producers, gatekeepers, and innovators	Multiple (through geo-linguistically proximate markets; diaspora networks; localization of global content)	The right mix of "glocal" products; translation across culturally diverse markets
New international division of cultural labor	Globally fragmented and dispersed cultural labor; core-periphery linked thru division of labor; uneven distribution of value capture	Hollywood majors	Limited (developing countries are likely to be locked in low value-added, labor-intensive outsourced labor)	Hollywood's dominance on creativity, finance, distribution
Global cultural value chains	Glocal culture over TNC-led value chain	Lead firms	Rising but varied (Process/product upgrading; original production; Int'l coproduction)	Chains governance; creativity/finance/distribution

First, according to *cultural/media imperialism*, the global animation industry is likely to be dominated by animation from the West, particularly from Hollywood. The circulation of animation relies on the key role played by U.S. media TNCs. Upgrading is unlikely, with local animation producers either marginalized or absent. The audience in

developing countries favors Western animation produced and distributed by TNCs over local varieties.

Second, *the regional cultural network theory* expects animation production and consumption to be concentrated into multiple regional hubs. Exports from the South are expected to rise, particularly between the markets sharing common cultural and linguistic traits. Local suppliers are likely to take advantage of regional animation markets, whose audience would like to watch regional content over globally-distributed one.

Third, *NICL* expects that global animation is produced under the leadership of Hollywood majors through an extensive international division of labor, where low value-added tasks are performed by developing-country suppliers. Local suppliers are likely to remain in low value-added, labor-intensive activities whereas Hollywood animation studios dominate creativity, finance, market and distribution.

Finally, *the GVC approach* anticipates the growth of international division of labor in animation production with increasingly complicated forms of trade, such as triangular production systems as found in apparel. The key role is played by lead firms, most likely global buyers in major advanced markets. Upgrading patterns are not expected to be uniform but vary by how the chain is governed. Upgrading opportunities and constraints are expected to differ depending on where lead firms come from as well as where the end market is.

## **2.3 Varieties of Global Value Chains**

This section reviews the GVC literature in greater detail, with a focus on the divergence of GVC governance structures and the associated differentiation of upgrading opportunities. Following a general introduction of GVCs and its key concepts, it examines the existing literature with regard to multiple governance structures and their consequences on upgrading. The final segment of this section presents theoretical expectations based on the idea of the varieties of GVCs and governance structures in conjunction with the idea of globalization as a restructuring force.

### **2.3.1 Global Value Chains: Key Concepts<sup>13</sup>**

As offshore outsourcing became prevalent in global industries, the fragmentation and geographical dispersion of production has drawn a good deal of scholarly interest (Feenstra 1998; Gereffi 2005; Dicken 2007). Production processes are sliced into pieces and conducted by legally independent yet contractually bound entities at home and abroad. The GVC literature, in particular, has paid a great deal of attention to this growing phenomenon (See Bair 2005; 2009; Lee 2010 for reviews). A GVC refers to “the full range of activities, including coordination, that are required to bring a specific product from its conception to its end use and beyond,” which includes research and

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<sup>13</sup> Some of the text in this subsection has been drawn from the author’s own review of global commodity and value chains literature (Lee 2010).



design (R&D), production, marketing and distribution and final consumption (Gibbon and Ponte 2005: 77). The GVC approach analyzes an industry by examining how associated activities are divided, distributed, and coordinated at a global geographical scale.<sup>14</sup>

The concept of GVC grew out of the earlier global commodity chains (GCC) literature, which originated in the mid-1980s as a by-product of world-systems research (Hopkins and Wallerstein 1986; 1994).<sup>15</sup> A GCC was conceived by world-systems scholars as a conceptual tool to understand the degree of spatial expansion of the early capitalist world economy, but later picked up by development scholars to investigate the contemporary relationship of industrialization and economic growth (Gereffi 1989; Gereffi and Korzeniewicz 1990; Gereffi 1994; Appelbaum et al. 1994). This “development turn” of GCC cast light on an emerging dynamic of the post-war world economy (Martin 1990); industrialization per se no longer guarantees economic growth without “a country’s ability to *upgrade* its mix of core-peripheral economic activities” (Gereffi and

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<sup>14</sup> There are several other approaches that have many similarities to GVC approach in theory and methodology. These variants include Michael Porter’s (1985) “value chain” concept in management studies; the French “*filière*” tradition (Raikes et al. 2000) and the “commodity systems” approach (Friedland 1984), both from agricultural studies; and “global production network” (GPN) research (Henderson et al. 2002), used mostly by economic geographers. See Sturgeon (2001) and Henderson et al. (2002) for a comparison of GVC with GPN; Raikes et al. (2000) with “*filière*”; Gereffi (1996) and Whitley (1996) with “business systems”; Bair (2008) with the new economic sociology; and Gereffi (2005) with the varieties of capitalism literature.

<sup>15</sup> For the evolution of the GCC/GVC literature, see Lee (2010: 2988-2992) and Bair (2005; 2009). See Sturgeon (2009) for difference between the two concepts.

Korzeniewicz 1990: 54, emphasis added). Not every node in a GVC is equal in terms of the share of surplus accrued; thus, a country's industrial success relies less on its overall level of industrialization than whether it is positioned in profitable, competition-proof nodes of a chain. Through this reformulation of the original concept, GCC/GVC has become a tool to analyze the geographical and organizational dynamics of an industry, the distribution of surplus, and the upward and downward mobility of firms and countries within increasingly complicated and decentralized networks of global production.

Four dimensions of GVCs have been specified: 1) input-output structure; 2) geography; 3) governance structure; and 4) institutions (Gereffi 1994). The input-output structure refers to discrete segments of value chains that bring a product or service from initial conception to the consumer's hand. This illuminates how production activities are divided but linked in sequence with one another. The geographical layer anchors these activities onto the physical locations where they are carried out to show how the value chain is geographically dispersed. Governance structure specifies the ways these divided and dispersed activities are coordinated and who is in the commanding position to define the roles and responsibilities of the actors involved in the chains. Finally, various institutions, including governments, labor unions, trade associations, non-governmental organizations (NGOs), and multilateral agencies, shape the rules, norms, and standards in which the value chains is embedded.

The most widely discussed aspect of the GVC literature, among these four dimensions, has been the governance structure (Gereffi et al. 2005; Humphrey and Schmitz 2001). In GVCs, firms are linked with one another through a series of supplier-buyer relationship. Governance structure defines the nature of the inter-firm linkages in term of authority and power relationships by setting the conditions of how financial, material, and human resources are allocated and flow within the chains (Gereffi 1994: 97). Initially, two distinct types of governance structure, producer- and buyer-driven chains, were identified according to the types of “lead firm” that drives the chains (Gereffi 1994). A recent elaboration of governance types has led to a five-fold GVC governance typology (Gereffi et al. 2005; Humphrey and Schmitz 2001). In addition to two conventional forms of coordinating transactions, i.e., markets (arm’s-length relations) and hierarchy (vertical integration) (Williamson 1975), three network-types of governance are specified between these two ends of the governance continuum – modular, relational and captive. This extension of the governance typology is based on is the idea that not all network forms are alike but they differ in terms of the degree of explicit coordination and power symmetry between the buyer and the supplier (Gereffi et al. 2005; see Powell 1990 for network forms of governance).

Governance matters, according to the GVC theory, because it is consequential to the chance of upgrading, which is defined as “the process by which economic actors – nations, firms, and workers – move from low-value to relatively high-value activities in

global production networks” (Gereffi 2005: 171; Schmitz 2004; Pietrobelli and Rabellotti 2006). In one of the early upgrading studies, Gereffi (1994; 1999) found the export success of East Asian producers in the global apparel sector was largely attributable to their ability to upgrade in the buyer-driven chains, particularly those led by American retailers and marketers. Subsequent studies suggest that the degree to which the supplier is dependent on global buyers significantly affects the former’s ability to move up the chain and capture more gains (Kenney and Florida 1994; Bair and Gereffi 2001; Humphrey and Schmitz 2002; 2004; Ponte and Ewert 2009).

This task of theoretically and empirically associating GVC governance with upgrading has become complicated as researchers differentiated the types of upgrading; Humphrey and Schmitz (2002) proposes four modes of upgrading: (1) process upgrading: making production processes more efficient by, for example, reorganizing the production system and using advanced technology; (2) product upgrading: moving into more sophisticated or high-value, product lines; (3) functional upgrading: occupying more profitable nodes within a chain, such as R&D; and (4) inter-sectoral (or chain) upgrading: moving into a more profitable sector.<sup>16</sup> By deconstructing the concept

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<sup>16</sup> The buyer tends to encourage and support the supplier’s process and product upgrading as long as it helps advance the buyer’s position in market competition. However, the buyer is not always favorable to functional upgrading, particularly the supplier’s upgrading to make its own brand, because the supplier could directly compete with the buyer, as shown below in a Brazilian footwear case (Bazan and Navas-Alemán 2004).

of upgrading as such, the GVC literature has shifted the upgrading question from “whether” to “under what conditions” upgrading occurs, opening up the opportunity to interrogate a more nuanced relationship between governance and upgrading, the topic to follow.<sup>17</sup>

### **2.3.2 Theories of GVC Governance and Upgrading**

As their empirical horizon expanded to various sectors and regions, GVC researchers increasingly confronted the complexity of GVC governance. Even between one supplier-country and one buyer-market, multiple chain structures are found to co-exist with distinctive types of lead firms and governance structure (Dolan and Humphrey 2000; 2004).

While receiving little attention by the recent GVC literature, earlier research on Asian production networks is of great relevance to the current discussion on the multiplicity of governance structures and particularly the empirical context of this study, i.e., East Asia. The findings of this research, mainly based on the electronics industry, have significant resemblance to the recent findings outlined above. U.S. and Japanese electronics multinational firms organized what is called “cross-border production

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<sup>17</sup> The GVC analysis recently has further extended to examining the effect of GVC governance on social and environmental upgrading in terms of promoting workers’ well-being and rights and environmental sustainability (Barrientos et al. 2010).

networks” (CPNs) in Asia in considerably different ways and this had significant implications for the upgrading of local suppliers (Borrus et al. 2000; Borrus 1997).

The Asian production networks of U.S. electronics firms were characterized by a relative open, fluid system. American firms generally developed extensive and decentralized subcontracting networks with local suppliers with high preferences for unaffiliated partners. They were willing to have supply relations beyond a limited set of suppliers, but the relations were relatively short-term and competition-based. The division of labor was vertical and complementary across value chain functions. American firms specialized in soft competencies (R&D, standards, sales and marketing), while Asian suppliers focused on hard skills (component manufacturing and assembly). As a result of extensive technological specialization with a wide array of local suppliers, the U.S. production network in Asia could maximize its exploitation of local capabilities across the region and facilitate the upgrading of Asian suppliers based on technological standards specified by U.S. firms (Borrus et al. 2000: 14-19).<sup>18</sup>

In contrast, Japanese firms generally organized their Asian production networks with a closed and hierarchical structure, relying on a largely domestic and affiliated supply bases. The supplier relations tended to be long-term and stable. The division of labor was horizontal; in other words, it is mainly between different product lines, not

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<sup>18</sup> This finding is also exemplified by the upgrading of Taiwanese electronics firms engaged in U.S.-driven production networks (Lee and Chen 2000).

between different chain functions as in U.S. networks. Domestic operations produced high-value, high-end products, while offshore affiliates concentrated on low-value, low-end products. The value contribution by foreign entities thus remains minimal, with many key components imported from Japan. As a result, the Japanese offshore network constrained the upgrading and value capture opportunities of its offshore affiliates as well as of unaffiliated suppliers (Borrus et al. 2000: 14-19; see also Ernst 2000: 83-84).

Although these CPN studies were largely based on the multinationals' affiliates set up through foreign direct investment (FDI), particularly in Japanese firms, recent comparative GVC research has also found that the chain governance of offshore supply chains varies by the national origin of lead firms and between global, regional, or national markets the product is destined to (Palpacuer 2008; Palpacuer et al. 2005; Bazan and Navas-Alemán 2004; Gibbon 2008). The presence of multiple governance structures has consequences on local suppliers in terms of their organization and upgrading opportunities.

In the Mauritian clothing export sector, for example, Gibbon (2008) finds the local suppliers are divided according to two major end markets: the United States and the European Union. They rarely try to switch from one to the other end market, particularly the U.S. chains, despite increasing incentives to do so after 2000. American and European buyers hire different types of intermediaries to manage suppliers – foreign ones in the U.S. chains and locally-owned agencies in the EU chains – and have

different expectations of what their suppliers would contribute to, which has a clear implication on the upgrading of suppliers; Europeans expect supplier contributions in a more diverse set of functions than Americans.

Multiple governance structures played out in Brazil's Sinos Valley footwear cluster in a different way (Bazan and Navas-Alemán 2004; Navas-Alemán, in press). In this case, U.S. and European buyers have a common governance strategy; both tightly coordinate supply chains through captive relationships, placing emphasis on price, quality control and flexibility. While these tightly coordinated buyer-driven chains tended to facilitate Brazilian suppliers to achieve product and process upgrading to meet such specific buyer expectations, functional upgrading, such as designing and marketing their own brand products, was out of reach for most of the Brazilian shoemakers catering to American and European buyers, in part because buyers were either reluctant to support such a move or actively blocked it out of concern that the suppliers might compete with them. However, functional upgrading did take place in market-based chains driven by domestic and Latin American buyers. A similar difference regarding global sourcing and regional/local sourcing is noticed in Lesotho and Swaziland between the U.S.-oriented, Taiwanese-owned chains and the chains owned by South Africans for their domestic market. The African lead firms tend to be more locally embedded than their Asian peers in terms of investing in skill training and hiring local managers (Morris et al. forthcoming).



In short, the existing literature suggests that the end market a chain is feeding into and the national origin of the lead firms in the chain are highly correlated with various characteristics of the chains, such as ownership structure, buyers' demands, product types, contract duration, and investors' motivation in nurturing local capabilities. These differences, in turn, affect the degree and types of upgrading likely to occur in the chains. The studies so far do not allow us to generate a set of solid hypotheses associating the national origin of lead firms and upgrading outcomes. However, these findings pose an interesting set of research questions to theoretically link GVC governance and upgrading. For example, whether chains destined to local or regional markets are more likely to be favorable to local suppliers than ones to global markets, or whether U.S. buyers (or U.S.-oriented chains) are more likely to favor one type of upgrading over another and have a distinctive preference from those of EU buyers or others. In short, the CPN study suggests the great variety of the ways U.S. and Japanese firms organize their offshore production networks in the context of East Asia. And the recent findings of GVC studies point to the presence of the multiple governance structure linked to the types of lead firm and its consequences on the upgrading of local suppliers.

### 2.3.3 Varieties of GVCs, Multiplicity of Governance, and Upgrading

The previous two sections have examined two strands of literature – CPNs in Asia and multiple GVC governance and upgrading – and both address the governance of offshore supply chains and its effect on upgrading. This final part of the section, given all these findings and arguments, discusses what kinds of findings could be theoretically expected from the empirical setting of this study.

First, *multiple strands of chains are likely to be found in the Korean animation industry feeding into different markets with distinctive sets of GVC governance.* Based on the existing literature, these chains are likely to differ in terms of (1) product strategies (e.g., product type, target market and audience), (2) division of labor (e.g., the scope of work outsourced, the degree of complexity and codification of outsourced work, control and monitoring on production activities), (3) the types of buyers and suppliers involved, (4) contract characteristics (e.g., duration, formality, average size); (5) supplier base (e.g., ownership structure; open/competitive versus closed/relational); and/or (6) buyers' expectation for upgrading. While the chains are not necessarily distinctive all across these aspects, they are more likely so because each aspect is closely associated with one another.

Second, *Korean suppliers are likely to be segmented between different strands of chains with distinctive upgrading outcomes.* Firms are more likely to focus on one type of chains than working on multiple chains. Whether they feed into different end markets (e.g.,

U.S., Japanese, European or domestic market) or product markets (e.g., high-end vs. low-end, 2-D vs. 3-D animation), the types of the chains firms are affiliated to are likely to affect the overall degree of their upgrading and the type of upgrading they could achieve. In terms of diversifying their skills and knowledge and leverage buyers in one chain against ones in another, as often suggested, working on multiple types of chains could be of more help than serving one type of chains (Lee and Chen 2000; Navas-Alemán, in press). Theoretically, this study does not have a clear expectation of how strong the division is and whether it changes over time. It is also open to the question of what types of obstacle play a strong role in hindering the suppliers from moving one to another chain.

Third, *similar U.S.-Japanese differences as found by the CPN research are expected to be present between U.S. buyers and Japanese buyers in terms of how to organize their animation supply chains in Korea.* The chains led by U.S. buyers are likely to be relatively open and market-based with short-term and competitive contracts whereas the chains destined to Japan are likely to be relatively closed with long-term contracts and relational supplier-buyer linkages. For overall upgrading outcomes, the literature points to a few different scenarios. According to the CPN research, U.S. chains are more likely to promote local capability-building than Japanese chains. Meanwhile, the literature based on the varieties of capitalism (VoC) distinction of liberal market economies (LME) like the U.S. and UK and coordinated market economies (CME) like Germany and Japan are likely to

support the possibility that Japanese buyers are likely to invest more in the upgrading of Korean suppliers (Lane and Probert 2009).

*Fourth, this study expects to observe the rise of local or regional value chains as an alternative to global buyers and these are likely to be more favorable to Korean suppliers for functional upgrading.* The rise of local animation markets or the inflow of regional buyers like Japanese buyers could help Korean suppliers to diversify their skill-sets, knowledge and markets in a way to promote functional upgrading that otherwise would not be encouraged.

In addition to these four main hypotheses based on the GVC literature, this study takes two other factors in consideration: the role of the state and historical waves of globalization. With regard to the rise of local chains, one missing piece in the existing GVC literature is the role of the state. In fact, GVC analysis has been criticized for its insufficient attention to institutions in general and the state in particular (Leslie and Reimer 1999; Cramer 1999; Ponte and Gibbon 2005). And, scholars based on VoC do pay little attention to the role of the state and institutions when it comes to the supplier countries, which tends to be developing countries. Supplier countries are characterized with weak and incoherent institutional settings (Lane and Probert 2009: 20). While that may be the case for many developing countries, Korea was known for the exceptional coherence of state bureaucracy (Amsden 1989; Evans 1995). Therefore, it is hard to imagine that suppliers act without being embedded in institutions, be formal or informal.

As more attention goes to the role of domestic chains in upgrading, the role of the state and domestic institutions in supplier countries is likely to gain more significance.

Finally, this study attempts to address how different waves of globalization have shaped the structure of the value chains emerged or landed in Korea. Globalization could affect the presence and viability of the chains. Different forces of globalization could change the upgrading opportunities involved in each of the chains into different directions. If multiple governance structure is considered as evolutionary, it is expected to find the shifting relation between GVC governance and upgrading as the mode of globalization evolved.

## ***2.4 Globalization and Developmental States***

This final section of this chapter examines the literature of developmental states in terms of how globalization affects the operation of developmental states. After the general overview of globalization, the state and industrial development, it reviews three competing arguments of the fate of developmental states in the context of East Asia and Korea. Based on the review, the final segment of this section provides analytical frameworks to test these arguments against the case of the Korean state.

### **2.4.1 Globalization, the State and Development**

Economic globalization challenges the ability of the state to direct the economy (Evans 1997b; Guillen 2001a; Brady et al. 2007; Ó Riain 2000b). As the global economy

became tightly integrated and capital ceaselessly move across national borders, it has been questioned whether the nation state can maintain its power to regulate its national economy and promote economic development. One group of scholars contend that the coming of “borderless world” (Ohmae 1999) and the spread of neoliberalism would restore free market through deregulation and privatization and keep the role of the state at minimum to facilitate the operation of free markets (Gore 2000; Williamson 1994). In contrast, others find that the decline of the state is premature, arguing that despite the globalization challenges, the developmental role of the state are neither in crisis nor destined to decline (Fourcade-Gourinchas and Babb 2002; Walter 2006; Weiss 2003; Whitford and Schrank 2011; Woo 2007b).

Globalization, according to the decline of state argument, poses challenges from several different fronts to the nation state. The challenges are particularly threatening to developmental states, whose defining feature is to lead economic development and industrial upgrading. First, FDI, globalized production networks, and intensified international competition limit the effectiveness of the state’s economic and industry policy that is contained within its sovereignty. Nation-states are increasingly forced to compete for foreign investors and buyers, which often turns into a “race to the bottom.” Second, the rapidity and uncertainty of technological innovations hamstring the state’s ability to pick the national champions and manage a national R&D system, which is not attentive to globalized, flexible, open innovation networks. Third, nation-states are

facing challenges from financialization. This hampers their ability to control financial flows across borders and uses financial measures to reward or discipline domestic producers. Finally, international institutions, such as the World Trade Organization (WTO) regime under the neoliberal agenda privileging free trade, liberalization and privatization, reduce the autonomy of sovereign states to govern their national economy.

From the developmental state's standpoint, challenges do not stop at the border. Domestic forces also confront the authority of the state. Rent-seeking and collusive and corruptive practices have been the perennial problem of state-led industrialization, even though they are not exclusive to developmental states (Lee and Schrank 2010). The rise of the private sector as a result of economic growth increasingly changes the power balance between the state and the business (Evans 1997a). Democratization in many formerly authoritarian developmental states has posed another challenge (Lim and Jang 2006; Wong 2005; Kim 1999). State policies often turn into a subject of political contention among interest groups where new political rules have yet to be set up. Instead of old, informal policy networks between bureaucrats and private firms, the states are forced to rely on an open, transparent, formal policymaking process with increased accountability inside and outside of governments, which would include a wider and more diverse set of social actors, such as labor unions and NGOs, than in the past. All these external and internal changes, therefore, force developmental states to redefine their role in the economy.

Against the expectation that this redefinition would lead to the demise of developmental states (Kim 1999; Jayasuriya 2005; Pirie 2005), critics find that such a death sentence is premature. Despite manifold challenges, developmental states are neither in crisis nor destined to decline. Pressures from globalization and neoliberalism are not equally strong across countries, and nations take divergent responses to these challenges, reflecting their own historical, political, and social specificities (Fourcade-Gourinchas and Babb 2002; Dobbin 1994). Decentralized, network-based production and innovation, in fact, keep the state vital in multiple roles: as a principal provider of location-specific assets, such as regulations (Shin and Chang 2005); as a facilitator in linking local firms to global networks (Ó Riain 2004); or as a protector from any potential network deficiencies or failures (Whitford and Schrank 2011). External pressures for institutional reform do not necessarily lead to the same anticipated outcome since actual practices are decoupled or loosely coupled from institutional norms (Meyer and Rowan 1977) and plagued with the persistence of discretionary state actions, be it attributable to institutional inertia or entrenched interests (Walter 2006). Cross-national cultural flows do not necessarily erase a national boundary, but rather they may facilitate the rediscovery of national identity and cultural resources (Iwabuchi 2010b).

All these complexities surrounding the nation state in the era of globalization, therefore, has left a task of defining what used to be a developmental state. The scholars who stress the weight of neoliberal pressures argue that developmental states are



disintegrated and turn into neoliberal, regulatory, competitive states, whose main role is “the provision of regulatory framework within the economic order” (Jayasuriya 2005: 384), instead of directing the economy and spearheading industrial development. Developmental states, as “an artifact of a particular Cold War- and Bretton Woods-based regime of international governance” (Jayasuriya 2005: 383), are destined to retreat from the stage in the face of neoliberal, market-driven governance. This transition, therefore, is perceived as a rational (or inevitable at least) response to structural changes in the global economy as outlined above (Pirie 2005).

The argument of a sweeping transition as such, however, has conceptual and empirical problems. Conceptually, if global structural changes are able to change even the most strict development states like Korea’s (Pirie 2008; 2005), one could wonder if there is any likelihood for other forms of state than the neoliberal one to exist; and if there is no possibility and all states are considered neoliberal, one would question what the analytical use of the neoliberal state would be. Thus, we need to know more about “the important distinctive features of particular national variants of neoliberalism” (Pirie 2005: 39), rather than bundling all together into the one conceptual basket.

Empirically, while East Asian developmental states (Johnson 1982) have been hit by globalization and economic crises (Jomo 1998), state-led developmentalism has not disappeared but remained strong, if not gotten stronger, over the last couple of decades. Scholars find the critical role played by the state, albeit in different forms from in East

Asia, in rapid economic growth in Ireland, Israel and India based on IT sectors (Ó Riain 2004; Parthasarathy 2004; Breznitz 2007; Levi-Faur 1998). Alternative models of developmental states have been proposed, such as developmental network states (Ó Riain 2004; Block 2008). China's impressive economic growth, based on an authoritarian regime but assisted by global production networks, has posed another conceptual challenge: to what extent can the Chinese state be conceived as developmental or neoliberal or both? Finally, industrial policy, once perceived dead, appears to have been resuscitated and even in vogue (Whitford and Schrank 2011; Wade 2009; Cimoli et al. 2009). Scholars call for a renewed form of industrial policy in the era of post-Washington Consensus (Block 2008; Rodrik 2008; 2004). And an active role by the state in economic and social upgrading has drawn attention in emerging economies like South Africa (Edigheji 2010).

This leads us to rethink the sweeping argument of a neoliberal transition and empirically delve into the concrete changes of what used to be developmental state to gauge the extent and depth of the changes. The following section zooms in the theoretical debate on the fate of East Asian developmental states to set the stage of our empirical endeavor.

## 2.4.2 Theories of Developmental States: Eclipse, Entrenchment, or Adaptation?

With respect to the fate of East Asian developmental states in the face of globalization, three major arguments have been put forwarded. One group of scholars suggests the decline of the developmental state in East Asia and its retreat from direct industrial policy intervention. Another group argues that states in East Asia, despite some remodeling, keep their developmental and interventionist power intact after the economic crisis in responding to globalization challenges. Finally, the advocates of adaptive developmental states claim that developmental states remain relevant for industrial development but are undergoing a considerable reconfiguration in policy, organization and state-society relations. Each of these three arguments is discussed in detail in the specific context of the changing political economy in Korea.

First, the “eclipse of developmental states” argument is based on the idea that the globalized economy, the diffusion of neoliberalism, and regulatory reforms like financial liberalization make the East Asian developmental state and its direct intervention in the economy no longer sustainable. Pirie (2005; 2006) argues that structural changes in the global economy have generated the general crisis of developmental states as became obvious in the Asian economic crisis, and that post-crisis regulatory reforms have moved developmental states away from a state-led developmental model and towards a neoliberal and regulatory state. As evidence of the

shift in Korea, he points to two major post-crisis regulatory changes: establishing central bank independence and creating an independent financial regulator. These reforms, Pirie argues, have stripped the state of its autonomous power to discretionally allocate finance to the private sector, which was the key measure to guide and discipline local producers, and thereby embedded neoliberal norms into the center of the state structure.

The ability of East Asian developmental states to adapt to new realities in the global economy is also questioned by O’Riain (2000a; 2004). Contrasting Japan and South Korea with a new breed of developmental states in Ireland and Israel, or what he calls “developmental network states,” O’Riain takes note of the declining power of those old bureaucratic developmental states to influence increasingly powerful local firms, which have been disembedded from state-led national developmental coalitions as a result of expanding international networks of finance and production (Ó Riain 2004: 35-38).

Ha-Joon Chang (2006) also acknowledges that the Korean developmental state was in peril even before the crisis. He argues that ill-designed financial deregulation and the premature dismantling of selective industrial policy and focal institutions like the Economic Planning Board (EPB) over the 1990s encouraged competitive over-investment by debt-laden conglomerates (*chaebol*) that were beyond state control. The state’s ability to create and enforce industry policy was tainted by increasingly particularistic state-business relations. And he argues that the post-crisis reform guided by the International

Monetary Fund (IMF) led Korea to “completely ditch the traditional East Asian model” (2006: 10).

While these authors do not necessarily agree with Pirie that globalization is driving convergence into a neoliberal form of the state,<sup>19</sup> they concur that the East Asian developmental state and particularly its bureaucratic variety like the one in Korea, are in serious trouble in the face of economic globalization.

The “entrenchment” view emphasizes the continuing relevance of developmental states in guiding economic development. While acknowledging that economic globalization considerably challenges the developmental role of the state, unlike the eclipse argument, the advocates of this perspective contend that globalization brings the state back in. Weiss (2003) agrees with Chang that the Korean state began to unravel before the crisis because the growing contradiction of its development model and the weakening of developmental institutions had left the country vulnerable to internationalized financial flows. She argues, however, that the ensuing economic crisis, rather than further undermining the state, brought it back to a commanding position in

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<sup>19</sup> For Chang, for example, what caused the crisis was not the persistence of state-led industry policies, which Pirie sees as no longer sustainable in the global economy, but the early demise of them (2006: 247). Similarly, Chang views the implementation of neoliberal policies before and after the crisis detrimental for the Korean economy, unlike Pirie who considers the shift of the Korean state into a neoliberal variety as its rational and effective response to globalization challenges. Finally, Chang is much more cautious about what will be the next. Despite the neoliberal nature of post-crisis reforms, he does not completely buy the argument that Korea is unavoidably heading for a neoliberal state, not precluding the possibility of activist government commitments (Chang 2006: 54, 248).

implementing reforms. In 1998, the Korean state led a series of massive business-swap arrangements among chaebols despite their resistance.<sup>20</sup> The role of the state did not stop with cleaning up the mess, Weiss claims; it has been actively leading in building up new industries, as exemplified by Korea's post-crisis initiatives to nurture venture capitalists and high-tech start-ups. In forging new industries, the Korean state as "a capable and determined state" continued to be able to execute "governed interdependence," or negotiated policymaking with the business under government sponsorship (Weiss 2003: 254, 257-258).

The critical role of the state in the recovery and post-crisis reforms is also highlighted by Kalinowski (2008), who argues that much of Korea's quick economic turnaround from the crisis was indebted to the strength of the old developmental model, such as export orientation and strong state capacity, not to a new, market-driven governance. He also finds that the political capacity of the state – securing its legitimacy – was as critical as its financial capacity in effectively implementing reforms. In a similar vein, Woo-Cumings (2001) sees more similarity than difference between previous economic crises and the one of the late 1990s. She argues that high-leverage investment patterns leading to chronic economic crises was nothing new to the Korean

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<sup>20</sup> To the supporters of the entrenchment view, this business-swap was reminiscent of state-led industrial rationalization programs of the past decades, which were designed to address the recurring problem of excessive capacity and achieve the scale economy of domestic producers for global competition.

developmental model; it has been a persistent problem that the developmental bureaucracy continued to fight against. The latest crisis did not pose a totally new problem and, thus, it is not entirely surprising that the post-crisis reforms only contributed to the reinvigoration of state bureaucracy and the reinvention of the developmental state in Korea (2001: 344-345, 358-359). In Weiss's words, a frog (read the pre-crisis state) was not transformed into a prince (the post-crisis state); rather, a prince leaps like the same old frog (Weiss 2003: 256).

Finally, the third view of the development state, the reconfiguration argument, is similar to the entrenchment argument in that both support the continuing relevance of developmental states and reject the idea of their eventual retreat. It differs, however, in that the prince leaps like a frog, but in the different way it did in the past.

Developmental states are remodeled and reconfigured to accommodate various challenges including globalization. This argument acknowledges old developmental models are under significant transformation but rejects the argument that the transformation will end up with the dismantling of developmental states. Rather, the reconfiguration of developmental states involves creating a new form of internal state structure and a different mode of intervention.

In his study of the Korean biotechnology sector, Wong (2004b) argues that new developmental challenges, such as post-industrial upgrading from learning to creating, have only pushed the state to reinvent itself through a new form of inter-ministerial

relations and increasing private-public partnerships for technological innovation. He claims that the disbanding of nodal institutions like the EPB did not result in outright uncoordinated competition among ministries, but niche-finding and a new pattern of “cooperation through competition.”

Similarly, Chu (2009) refutes the idea that East Asian developmental states are unable to adapt to a globalized, knowledge-based economy. Drawing upon the successful performance of Korea’s IT sector, Chu argues that developmental states are capable of addressing globalization challenges. Further, the concept of networked production is not unfamiliar to the region given its postwar development closely tied to its insertion to global production networks. And the fact that the knowledge-based world economy is not open as often supposed leaves many tasks to the state, such as standard-setting. To adapt, she contends, developmental states reconfigure their mode of intervention, which includes assuming a new role of articulating developmental visions, assuring competition but awarding the most competent enterprises, and deploying resources to help them to reap the benefits of upgrading. Such interventions do not dictate as old developmental states did, but do rather shape local producers’ decisions by altering the opportunity structure of the market.

In sum, the supporters of the adaptation/reconfiguration argument highlight that the “developmentally oriented” states “reconfigure state institutions, to recast state and society linkages, and to redefine development policy agendas” (Wong 2004a: 356). The



argument follows that, unlike the expectation of the entrenchment argument, the increase of state capabilities in response to globalization does not lead to a revival of old forms. Instead, states adapt to new mandates to accommodate external and internal challenges (Wong 2004a: 357-358).

Despite some overlaps and internal differences, these three streams of argument provide a strong theoretical foundation for this thesis. They all started from the question of how economic globalization challenges the East Asian development state and came out with different diagnoses and prognoses: retreat, reinvigoration, or reconfiguration. Several common shortcomings should be noted, though: first, most of the research focuses on a short time period, primarily right before and after the economic crisis. Though critical, the most recent episode should be understood in conjunction with evolving state intervention for an extended period of time. Secondly, the existing analysis largely focuses on exhibiting the presence (or lack) of industrial policy, failing to explain how it relates to the structural changes Korea has been facing, such as globalization, technological change, and democratization, and how developmental states work as institutions shaping and shaped by social processes. Finally, it pays little attention to the interaction of global production networks and domestic responses, such as how changes in global production networks provided the momentum for the change of industrial policies, or new industrial policies reshaped the way the Korean producers were linked to global production networks.

### 2.4.3 Analyzing Developmental States: Development Strategy, Industrial Policy and Social Coalition

In this study, the developmental state and its interventionist policy are measured in two dimensions: industrial policy and state-business relations. Developmental states are distinctive in “their commitment to production-enhancing, growth-oriented priorities” (Weiss 2003: 247). To achieve this goal, they devise development strategies, or “sets of government policies that shape a country’s relationship to the global economy and that affect the domestic allocation of resources among industries and major social groups” (Gereffi 1990: 23). On the one hand, the state affects the way the country is linked to global networks of production, trade, and investment, and on the other hand, it shapes its interface with society, mainly business. Promulgating and implementing development strategies involves two dimensions of developmental states: policy and organization. Industrial policy is the content of a development strategy, whereas state-business relations involve how to execute the strategy.

First, in terms of industrial policy, the degree of state developmental intervention is gauged by examining: *a) whether more functional and less sector-specific policies are implemented; and b) whether the state follows rather than leads the decision of local firms.*

Industrial policy is a key component of development strategies to “aim to aid industries... by affecting production and investment decisions of decentralized producers” (Wade 1990: 233). Different types of industrial policy relate to different

degrees of state intervention to achieve transformative goals. Wade (1990; 1989) distinguished between functional (horizontal) and sectoral (vertical) industrial policies. Functional policies are intended to work across sectors. Various incentives for capital investment, R&D, workforce development, etc. can be applied across sectors. In contrast, sector-specific policies are customized and targeted to bolster declining industries, stimulate new industries, or preserve key strategic industries (Dicken 2007: 184). Sectoral policies generally represent a higher degree of state intervention.<sup>21</sup>

For either type of industrial policy, the state can play a different role: in Wade's term, "leader" or "follower." The leadership role refers to state action to nudge local firms to "do something other than what they would otherwise have done" by proactively targeting particular products or technologies to be promoted and concentrating public resources on developing them. The follower role involves the state letting local firms "do what they would do whether assisted or not" by adopting the proposals of private firms (Wade 1989: 78; 1990: 234). This distinction is less dichotomous than difference of degree on a continuum. Leadership can be differentiated between big, outright leadership and small leadership enough to tip the balance (Ellison and Gereffi 1990: 381-382).

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<sup>21</sup> Wade (1990: 237-238) points out that "although it is conceptually possible to have an interventionist government that uses only functional industrial policies, we are not likely to want to call a government 'interventionist' without evidence of industry-specific industrial policies targeted on important industries."

Second, whether the Korean developmental state has changed in terms of state-business relations can be measured by answering the following questions: *a) how the state-society relations in Korea have changed, particularly in regard to embedded autonomy; and b) whether chaebol-based social coalitions has been replaced by a new form of development alliance.* If industrial policy is the content of development strategies, organizational arrangements are the vehicle to deliver the policies. The state alone cannot carry out a development project. Firms – local or foreign, small or big – are key actors in industrial development. The characteristics of industrial policies in a given country are based on the intentions and motives of corporate actors as much as those of state planners (Ellison and Gereffi 1990: 382). The interaction between the state and the business is characterized by negotiations and conflicts as well as the flow of information and expertise. On the one hand, the state plays a key role in shaping the structure of industry organization and the types of firm prevailing (Biggart and Guillen 1999), and on the other hand “basic patterns of industrial organization confront governments with distinctive sets of opportunities and constraints in the formulation and implementation of national industrial strategies” (Ellison and Gereffi 1990: 387).

This relational web of the state with various social actors including the business is critical to industrial development. Evans (1995) argues that the strength of developmental states lies in a particular feature of this state-society relationship, that is, “embedded autonomy.” It is a state’s ability to maintain autonomy in policy-making

and implementation from the predatory rent-seeking of interest groups, but simultaneously not isolated from but deeply embedded in personal and institutional networks with various social actors.<sup>22</sup> Through this linkage, social coalitions are formed around a particular development strategy, and participating social groups provide a crucial political and economic support for the strategy. Chibber (2003; 2005) finds that India's critical development divergence from Korea in the 1950s came from the state failing to generate social alliances with local capitalists, while In Korea such alliances was cemented in the 1960s surrounding export-oriented industrialization (EOI) . In this regard, understanding the "dynamic and interactive relationship between social coalitions, state strategies, and the paths of industrialization" (Ellison and Gereffi 1990: 390-391) is critical in examining the changing role of the state in development.

Policy and organizational components of developmental states are not static over time. Social actors, including the state, change their course of action in the face of globalization and changing domestic political economy (Guillen 2001b: 4) Their preferences are not given or predetermined, but dynamic and evolving. Development coalitions are, therefore, subject to change; alliances are dissolved and reconstructed. The success of a development strategy often undermines its very coalitional foundation, as shown in the retreat of the chaebol from state-led development in the early 1990s

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<sup>22</sup> Embeddedness is defined as "a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation" (Evans 1995: 59).

(Kim 1999). As a result, the mode of state intervention can change over time and vary by sector even when the state remains largely developmental. Therefore, the evolution of developmental states can be best understood through a series of episodes where different parameters of developmental states move from one to another direction over time (Wade 1990: 248).

In the context of the Korean animation industry, three competing arguments present different theoretical expectations in terms of industrial policy and state-business relations. *The eclipse argument* expects the overall decline of state intervention over time, with more functional and less sector-specific industrial policies implemented and the state increasingly following the decision of local animation producers. The state became disembedded from its traditional development alliance with the chaebol, relegating to a regulator position with less direct policy intervention.

According to *the entrenchment argument*, the Korean state's intervention in the animation industry is likely to remain strong with mainly sector-specific policies and as an outright leadership role. State-business embeddedness is expected to survive globalization challenges and the economic crisis, and the state is likely to maintain a leadership role in its relations with local producers.

Finally, *the reconfiguration argument* expects that the Korean state renews its commitment to sector-specific policies and its role shifts away from big leadership to

small leadership. State-business relations are likely to change with the rise of a new form of development alliance, replacing a chaebol-based coalition.

## **2.5 Conclusions**

This chapter has examined three major theoretical pillars of this study: globalization of cultural industries, varieties of global value chains, and globalization and developmental states. Major theoretical arguments with distinctive theoretical expectations have been presented for each pillar. The following empirical chapters examine each of these theoretical themes in the contexts of Korean and Indian animation industries.

Cultural/media imperialism, regional cultural networks, and NICL offer different theoretical expectations on the effect of globalization on the structure of cultural industries and upgrading opportunities and constraints within them. Identifying the limitations of each of these perspectives, this study proposes a GVC approach as an alternative framework to analyze global cultural industries, highlighting the role of lead firms in organizing global cultural value chains and varied GVC governance structures and upgrading paths. The theoretical expectations of all of these approaches are empirically investigated in the context of the historical evolution of the global animation industry (Chapter 3) and the animation sector in Korea (Chapter 4).

The topic of varied GVC governance structures and upgrading paths has been discussed in great detail based on the GVC literature on multiple governance structures. In the Korean animation industry, this study expects to observe the presence of multiple value chains, the segmentation of supplier groups, differences in chain governance between U.S. and Japanese buyers, and the rise of local and regional chains. Chapter 5 examines these topics, focusing on three animation supply chains in Korea: U.S. and Japanese outsourcing chains and international coproduction chains.

Finally, three competing arguments on the fate of the developmental states in the face of globalization – eclipse, entrenchment, and reconfiguration – have presented distinctive theoretical expectations in terms of the characteristics of the state’s industrial policy and state-business relations. Chapter 6 takes up the case of the Korean developmental state and its role in animation to test the validity of each argument.

Each of the three theoretical pillars is revisited in Chapter 7 with a comparative case. India’s experiences in global animation production are examined in terms of the shift of development modes, variations among different GVCs, and the role of the Indian state in animation.



## **3. THE GLOBAL ANIMATION INDUSTRY ON THE MOVE**

### ***3.1 Introduction***

This chapter examines the key characteristics of the global animation industry and its persistence and transformation in the post-war period. The first section provides an overview of the animation industry and the animation production process. The next two sections historically trace the animation industry over the course of two waves of globalization.

### ***3.2 The Animation Industry: Overview***

#### **3.2.1 Animation as a Cultural Product**

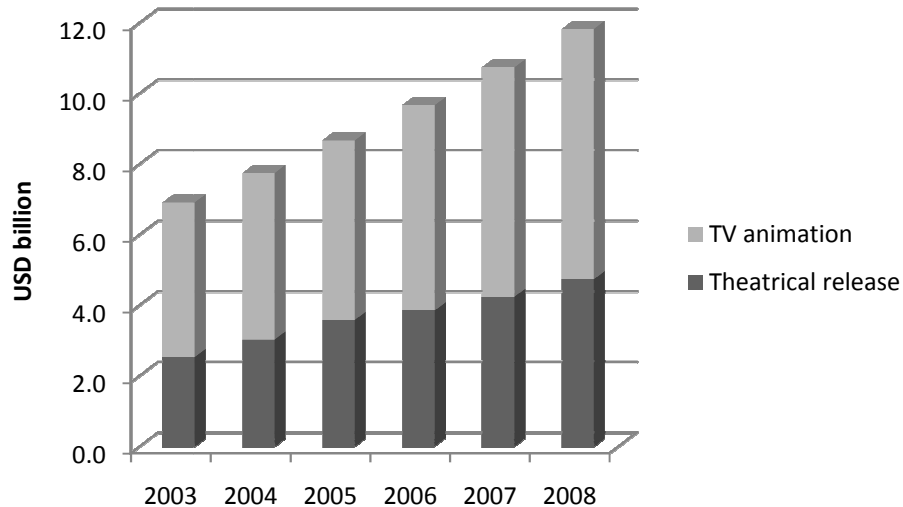
As an art form, animation has as long a history as humans. Its history traces back to cave painting and spinning pottery in early human history. An industrialized form of animation-making, however, emerged in the early twentieth century. Following the lead of early pioneering studios such as Walt Disney and Warner Bros., the United States quickly became the global powerhouse of commercial animation and has since maintained the leading position (Bendazzi 1994).<sup>1</sup>

The nature of animation as a perennial art form belies the extent to which animation-making as an industry has undergone significant transformations since its

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<sup>1</sup> This study only focuses on commercial animation, which is not only an artistic and expressive form but also produced for profit-making. Thus, artisan-based independent animation is not considered in this study.

birth. In 2008, the industry represents an \$11.8 billion worth of global business. The industry posted a solid growth rate of 70 per cent in 2003-2008, and TV animation accounted for approximately 60 per cent of the industry revenue (Figure 1).



**Figure 1: World animation market, 2003-2008**

Source: PwC, *Global Entertainment and Media Outlook, 2004-2008*

Hollywood’s mega-studios like Walt Disney/Pixar and DreamWorks, major TV networks like Fox Network, and children’s cable and satellite stations such as Nickelodeon and Cartoon Network play a leading role in production and circulation of animation (Hubka 2002; Westcott 2002). As Table 3 indicates, these multinational media

giants are the major players in global audiovisual business, along with other media corporations from Europe and Japan.<sup>2</sup>

**Table 3: Top 20 audiovisual companies worldwide, 2004**

Rank	Company	Country	Turnover (USD million)
1	Walt Disney	United States	23,002
2	Viacom	United States	21,374
3	Time Warner	United States	20,907
4	Sony	Japan	16,006
5	Vivendi Universal	France	15,494
6	News Corporation	Australia	14,417
7	NBC Universal	United States	12,900
8	The DirectTV Group	United States	11,360
9	Bertelsmann	Germany	10,113
10	Liberty Media Corp.	United States	7,682
11	BBC (Group)	United Kingdom	7,250
12	ARD	Germany	7,131
13	NHK	Japan	6,272
14	Blockbuster Inc.	United States	6,053
15	Nintendo	Japan	4,816
16	Mediaset	Italy	4,813
17	RAI	Italy	4,253
18	ITV PLC	United Kingdom	3,963
19	TFI	France	3,900
20	France Televisions	France	3,791

Source: KEA, European Affairs (2006), *The Economy of Culture in Europe* with figures from the European Audiovisual Observatory; cited in UNCTAD (2008: 164)

For animation made for theatrical release, or animated film, only three Hollywood studios (and their distribution arms) account for all of the top 20 feature animated films with the highest gross revenue worldwide since 1980 (Table 4).

<sup>2</sup> Nickelodeon is owned by MTV Networks, a subsidiary of Viacom, which also owns Paramount Pictures and BET Networks. Cartoon Network is part of the Time Warner Group, which includes CNN, HBO, Turner Broadcasting System, and the CW Television Network. Fox Network is part of News Corporation, which also owns Twentieth Century Fox, SKY satellite networks, and the Wall Street Journal.

**Table 4: Top 20 animated features with the highest gross since 1980**

Rank	Title	Studio	Year	World Gross (US\$ million)	U.S. Gross (share)	
1	Toy Story 3	Buena Vista (Walt Disney)	2010	1,063.2	441.2	41%
2	Shrek 2	DreamWorks	2004	919.8	415.0	45%
3	Finding Nemo	Buena Vista (Walt Disney)	2003	867.9	339.7	39%
4	Shrek the Third	Paramount/DreamWorks	2007	799.0	328.5	41%
5	The Lion King*	Buena Vista (Walt Disney)	1994	783.8	322.7	41%
6	Shrek Forever After	Paramount/DreamWorks	2010	752.6	293.0	39%
7	Up	Buena Vista (Walt Disney)	2009	713.3	267.7	38%
8	Kung Fu Panda	Paramount/DreamWorks	2008	631.7	261.4	41%
9	The Incredibles	Buena Vista (Walt Disney)	2004	631.4	255.9	41%
10	Ratatouille	Buena Vista (Walt Disney)	2007	623.7	251.5	40%
11	Tangled	Buena Vista (Walt Disney)	2010	576.6	245.9	43%
12	Despicable Me	Universal	2010	543.1	244.1	45%
13	Monsters, Inc.	Buena Vista (Walt Disney)	2001	525.4	238.7	45%
14	WALL-E	Buena Vista (Walt Disney)	2008	512.3	223.8	44%
15	Aladdin*	Buena Vista (Walt Disney)	1992	504.1	217.6	43%
16	How to Train Your Dragon	Paramount/DreamWorks	2010	494.9	217.4	44%
17	Toy Story 2	Buena Vista (Walt Disney)	1999	485.0	215.4	44%
18	Shrek	DreamWorks	2001	484.3	206.4	43%
19	Cars	Buena Vista (Walt Disney)	2006	462.0	199.7	43%
20	Monsters Vs. Aliens	Paramount/DreamWorks	2009	381.5	198.4	52%

\* Non-computer graphic animation (2-D cel animation)

Source: Box Office Mojo (<http://www.boxofficemojo.com>), compiled on Apr 28, 2011

As for TV networks, another major distribution channel of animation, “Big Three” from the United States – Disney Channel, Nickelodeon and Cartoon Network – are the leaders in children’s TV programming (Westcott 2002). The recent global expansion of these cable networks, in part thanks to the liberalization of national broadcasting markets, has increased their power in the global animation industry (Lustyik 2010), although the roles of national and regional networks as animation producers and distributors are still relatively bigger on TV than in theater.

### 3.2.2 From Script to Screen: Industrialized Animation Value Chains

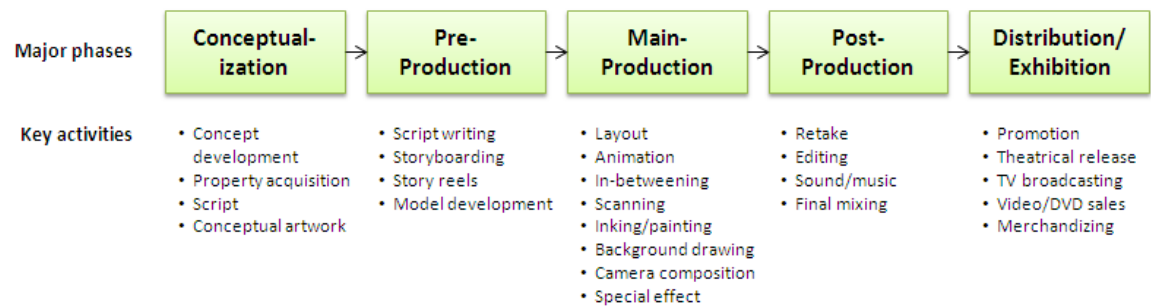
The industrial form of animation-making based on an elaborated division of labor was established in the 1930s, and much of the process has changed little until the recent emergence of computer-based animation (Halas and Manvell 1968). The well-established division of labor, later assisted by copy machines and digital technology, facilitated the globalization of production in animation more than in any other forms of cultural industries.

Animation, including a computer-aided variety, is generally produced through the following phases: conceptualization, pre-production, main production, post-production, and distribution/exhibition (see Figure 2).<sup>3</sup> Each phase nests a detailed division of labor. In conceptualization, scripts, characters and conceptual artwork are created in accordance with original ideas. In the pre-production phase, these outputs are fleshed out into the forms of storyboards, sophisticated artwork and eventually story reels, which provide a full sequence of the art conveying a story in its entirety. For 2-D cell animation, the main production stage involves transforming story reels on paper into an animated film through drawing, scanning, inking, coloring and photographing. Meanwhile, the pre- and main-production of 3-D computer animation consists of distinctive tasks, such as modeling, rigging, shading and lighting (Winder and

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<sup>3</sup> See Appendix B for detailed illustrations of the production processes of 2-D and 3-D animation.

Dowlatabadi 2001). The finished work moves to post-production for editing and sound-mixing before being distributed in theater, on television, or directly to consumers in Digital Video Disks (DVDs) (Winder and Dowlatabadi 2001; Milic and McConville 2006).



**Figure 2: A stylized value chain of animation**

The level of sophistication and complexity in production varies by product according to factors such as the production technique used, the target quality of the product, and the target medium. The most conventional form of animation is cel animation, which generates movements through the continuation of the frames, each of which is drawn by hand on a transparent sheet, called a “cel,” short for celluloid. This animation technique was developed in the 1910s and had been the most popular and cost-effective way of animation-making until computer animation emerged. Since the mid-1990s, computer-assisted animation (3-D) has grown significantly.<sup>4</sup> Its production process diverges from hand-drawn 2-D animation in main production, the most labor-intensive stage of animation-making, where most of the tasks are handled on computer,

<sup>4</sup> Note that only two of the 20 highest grossing animations – *Aladdin* (1992) and *The Lion King* (1994) – are now cel animation (see Table 4).

from creating models (modeling), making them move (rigging) to giving them a shade or a light (shading/lighting). While initially used for big-budget animated films due to the high costs of necessary equipment and software, the increasing availability of lower-cost software and equipment have recently allowed computer animation for TV.<sup>5</sup>

For animation using the same technique, the level of technical sophistication varies. For example, 2-D animation is divided by full animation and limited animation. Full animation requires at least 12 to 18 frames of drawing per second, offering a detailed, smooth and plausible movement. Limited animation uses a fewer number of frames than full animation with less detailed and more stylized drawing. By reducing the number of in-between drawings that link key frames, limited animation can reduce production costs at the expense of the realistic depiction of movements. Therefore, full animation tends to be used for quality-driven, high-budget projects, such as theatrical releases, while limited animation is used for less-quality-driven and budget-conscious projects, such as TV animation and direct-to-video (DTV). For computer animation, photo-realistic movements that can be found, for example, in Pixar's 3-D animated films require sophisticated and often proprietary software with large computing resources.

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<sup>5</sup> There are other types of animation, such as stop motion animation, which creates movement by making a physically manipulated object appear to move on its own. Puppet animation (e.g., *The Nightmare before Christmas*) and clay animation (e.g., *Wallace and Gromit*) are the widely used techniques of stop motion animation.

Meanwhile, flash animation (or 2-D digital animation) can be created on personal computer with over-the-counter software, such as *Adobe Flash*.

These product and technology differences generate different worlds of production as well as various market segments (Yoon and Malecki 2010). Theatrical release generally requires a high-quality, big-budget product, which takes a long period to develop and produce (usually 2-3 years) with a dedicated group of creators and animators. The capital-intensive (and technology-intensive, in the case of computer animation) nature of animated feature products allows only large studios, such as Pixar and DreamWorks, to compete in the market, and they tend to work on their projects in-house with little outsourced.<sup>6</sup> Box-office attendance, domestic but increasingly global, tends to be the major source of revenue for animated films, although TV syndication and merchandise sales also contribute.

Animation for TV and direct-to-video/DVD is generally less quality-driven and more cost-sensitive than animated films. Unlike the long-formats, TV animation tends to be a serial with a varying length (although a 30-min episode including commercial time is the widely accepted industry standard). It is mainly distributed through various types

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<sup>6</sup> Recently, a lower-cost model of animated feature production is emerging in Hollywood (Barnes 2011). For example, *Despicable Me* (2010) from Universal was produced by the California-based Illumination Entertainment and outsourced to Mac Guff, a Paris-based special effect studio. According to Box Office Mojo (<http://www.boxofficemojo.com>), the production budget of the animation from Universal Studios is only \$69 million, more than a half of Pixar's *Toy Story 3* (\$200 million) and DreamWorks' *Shrek Forever After* (\$165 million), also released in 2010.



of TV stations, including cable and satellite stations dedicated to animation. Since fees paid for animation by broadcasters to producers are at best enough to cover the production costs, and the popularity of the acquired animation on TV only helps the broadcaster to increase advertising revenue unless any types of revenue-sharing schemes are in place, the business model for TV animation producers is more inclined to the revenue stream from ancillary markets, such as video/DVD sales and merchandise sales like toys.<sup>7</sup> Compared to animated films based on a high-risk/high-return, or blockbuster, model, where a huge, albeit rare, success at the box office leads to the quick recouping of the costs, TV animation is premised on a relatively low-risk/long-recoup model because it takes a shorter time to produce with a smaller budget and workforce than feature films, but instead has to rely on a long recoup period because much of its revenue comes from various ancillary markets over a long period of time. And because it is usually produced with a smaller budget and a shorter production time, TV animation production is more prone to be outsourced at home and abroad than animated films.

While the up- and down-stream segments of the animation value chains – creative development and marketing/distribution – tend to be intensive in creativity and capital expense, the middle section of the chain, i.e., main production, is generally

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<sup>7</sup> Due to the importance of merchandizing market, toy companies often become a financier of TV animation projects in order to secure the licensing rights of the characters used.

considered more labor-intensive (Coe and Johns 2004: 194), although some tasks (e.g., in-betweens<sup>8</sup>) are more so than other main production tasks (e.g., key animation). These differences in product type and value composition have affected the international division of labor in animation outsourcing, as shown below.

### **3.3 First-wave Globalization: 1960s – 1980s**

The animation industry originated in the United States and Europe in the early 20<sup>th</sup> century and was globalized in the postwar period. This section examines, first, animation production in Hollywood in the 1960s-70s in the wake of the break-up of an in-house studio system and the start of TV broadcasting. It then describes the “outsourcing wars” in the late 1970s and early 1980s between the studios and animator unions in Hollywood and the ensuing rise of offshore outsourcing to Asia, which led to the formation of Asian production networks and the rise of Japan as the key organizer of the regional networks. Given the focus of this study on East Asia, the discussion of this section is tailored for the U.S. animation industry, which was critical to the development of the animation industry in the region.

#### **3.3.1 The Animation Production System in the United States**

The U.S. animation production system has co-evolved with the changing structure of Hollywood. The Paramount Consent Decree in 1948 forced Hollywood’s big

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<sup>8</sup> In-betweens refer to a task of drawing the frames that link key animation frames in 2-D production.

studios to separate production from distribution, which eventually led to the demise of a vertically integrated studio system and the rise of flexible specialization in the early post-war period (Storper 1989; Storper and Christopherson 1987). At the same time, TV broadcasting began to challenge the film industry. In animation, Saturday morning kids' blocks gained popularity since the early 1950s. Facing financial difficulty caused by these environmental changes, Hollywood studios began to divest from animation production. Metro-Goldwyn-Mayer (MGM), Warner Bros., and Paramount had withdrawn from animation production by the 1960s, leaving Walt Disney the only major studio in theatrical animation.<sup>9</sup>

The vacuum created by their departure was filled by independent animation companies, some of which were established by ex-studio animators, such as Hanna-Barbera and DePatie-Freleng.<sup>10</sup> These new studios along with Snowball, Filmation (1962-1989) and Ruby-Spears (1977-1996) opened up the golden age of TV animation in the United States. In this burgeoning new medium, TV broadcasters and their advertisers, such as cereal and toy companies, replaced film studios to finance animation projects (Brasch 1983: x). Meanwhile, confronting the popularity of TV animation, theatrical

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<sup>9</sup> Warner Bros.' animation unit was closed in 1953 and restored the next year, but it closed again in 1963. MGM closed its animation unit in 1957, and Paramount did the same in 1969 (Sito 2006: 217-220).

<sup>10</sup> Hanna-Barbera was established in 1957 by two former animators at MGM, Bill Hanna and Joe Barbera, and ex-Warner Bros. animator Friz Freleng established DePatie-Freleng with Warner executive David DePatie in 1963.

animation suffered so much in business that Disney laid off its animators after the disappointing performance of *Sleeping Beauty* (1959) at the box-office, and subsequently the company only hired 21 new artists for the next 16 years (Sito 2006: 220-222).

The success of TV animation was also assisted by the use of the limited animation technique. First developed in United Production of America (UPA) in the 1950s mainly as an artistic device, the technique was embraced by Hanna-Barbera for the production of TV animation. It fit well because TV networks wanted to fill their air time with animation that could be produced in a relatively shorter period with lower budget than animated features. For them, quantity is at least as critical as quality. TV animation producers reduced the number of frames to draw and often reused the same frames repeatedly, and compensated for the less realistic movements with other elements, such as attractive storylines and voice acting. As a result, by the late 1950s limited animation and the streamlined assembly line modeled after Hanna-Barbera had become the norm of TV animation production, meeting the expanding demand from the TV industry (Sito 2006: 224).

### **3.3.2 The “Outsourcing Wars” and Emerging International Division of Labor**

The possibility of offshore outsourcing began to be seriously considered as the production system in Hollywood became vertically disintegrated. In feature animation, U.S. studios hired Mexican studios for low-end production tasks in the late 1950s and

later made sporadic attempts to farm out such tasks to Japan, Italy and Eastern Europe because of lower wages there. The offshoring of TV animation, however, had not been a viable option until the mid-1960s because the costs involved in offshoring outweighed the savings (Sito 2006).<sup>11</sup>

By all accounts, the offshore outsourcing of TV animation began in earnest in the mid-1970s (Scott 1984: 302). It was attributed to several factors. First, price-cutting pressures came from TV networks and, in response, the animation studios tried to further cut their costs in TV animation.<sup>12</sup> The focus of cost-cutting was made on cel photocopying and painting, which were labor-intensive but took up a significant portion (by one estimate, one third) of the total production costs (Howell 1983: 36). The studios realized that they could reduce a half of the costs involved in the most labor-intensive tasks by shipping them to overseas contractors. According to a 1983 report (Howell 1983: 36), a journeyman cel painter in Hollywood was paid \$444 a week, a 300 per cent increase from its 1973 level, while a cel painter in Korea was paid only \$50 a week. The

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<sup>11</sup> One of the initial projects outsourced from U.S. studios to Korea, was to transform old black-and-white animation to colored animation. Noticing a shortage of TV programs in the late 1960s, the studios began to sell TV networks their old animated shorts that had been stored in their library only after adding color to them (Hwang 1998).

<sup>12</sup> “[They’re -- animators] only overpriced because the networks won’t give us any more money” said Ross Sutherland of Hanna-Barbera (Howell 1983: 105). Interestingly, pressure from the networks did not limit the costs, but they began to influence creative development. “There never would have been a Bugs Bunny if the networks were controlling the production then,” said Friz Freleng, “[Today] you write a thing, and the network people come in who aren’t qualified, 90 percent of them, to judge a written script and interpret it as animation” (Howell 1983: 38).

wage gap was still significant for higher-skill jobs, like animators. An American animator got paid \$681 plus benefits a week in 1983, while its peer in Korea was paid \$300 a week.<sup>13</sup> Looking at this as an opportunity, some of American animation studios began to pioneer offshore outsourcing, which included Hanna-Barbera, DePatie-Freleng, Ruby-Spears, Marvel, Bakshi Productions and so forth (Sito 2006: 259).

The rise of offshore outsourcing generated a growing anxiety among U.S. animators in the late 1970s. In fact, the growth of TV production had already created instability to their job security. A short production period of TV animation meant that animators were hired not full-time but only for a specific period of a year whose skills were needed.<sup>14</sup> This created a high seasonality in animation employment, typically concentrated between November and the following April (Scott 1984). This fear that offshore outsourcing would exacerbate the already worsening labor conditions finally led to two major confrontations between animation unions and the studios in 1979-1982.

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<sup>13</sup> Although most of the wage gap had disappeared between Hollywood and Japanese studios by the early 1980s (Howell 1983: 105), major animators in Taiwan were still paid 60 per cent of their Hollywood counterparts as late as the early 1990s. The low wage was maintained partly because overseas studios depended on non-unionized young animators, many of whom were female (Lent 1998). This does not necessarily mean, however, that their wages were low at the local standard; on the contrary, Korean animators working for outsourced projects enjoyed relatively high wages for much of the 1980s, which were more significant because any formal educational background was not usually required to be hired as an animator (Author's interview, Feb. 12, 2009).

<sup>14</sup> According to Scott (1984: 298), 40 per cent of the workers surveyed in 1983 had moved their workplace in the previous two-year period.

The outcome of the so-called “outsourcing wars” was, unfortunately for American animators, the acceleration, not decline, of offshore outsourcing.

The first strike by animators in August 1979 lasted three weeks and was effective in putting the entire production schedule in jeopardy. The affected studios had to make quick concessions to the unions, although it turned out later that these concessions, because of loopholes, were not very effective in blocking the outflow of the work outside Hollywood (Howell 1983: 105). Three seasons later, another strike broke out in August 1982 surrounding the issue of offshore outsourcing. The strike was not effective, however, in garnering concessions from the studios because this time around the studios were prepared. After the 1979 strike, they began to contract out to offshore studios in Canada, Taiwan and Korea, which greatly limited the damage of the strike.<sup>15</sup> In addition, the cleavage between different job categories among union members hurt the union’s bargaining power; ink-and-painters were hardest hit by runaway production, while other highly-skilled workers like animators had felt the effect less by then. As a result, labor solidarity eroded and the strike ended on October with failure (Sito 2006:241-242). The failed strike resulted in a drop in union memberships, the rise of non-union studios

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<sup>15</sup> “The [1982] strike didn’t affect us very much; we simply got the work done elsewhere,” said Ross Sutherland of Hanna-Barbera (Howell 1983: 105).

with a low-budget model, high rates of unemployment afterwards,<sup>16</sup> and the breakdown of labor solidarity (Scott 1984: 301-304).

Most importantly, the failed strikes opened the floodgates to offshore outsourcing. A gag drawing in 1982 depicts Hanna-Barbera's two studio buildings at Universal City, California being towed by sea to Taiwan (Sito 2006: 275). And informal assessments showed, according to Scott (1984: 302), that by 1983 well over half of all animation work in Hollywood involved in one way or another offshore outsourcing, indicating that runaway production became the norm, not an exception, for TV animation at the time (Howell 1983: 105). One observer reported that by 1989, there was no more in-house production of TV animation in Hollywood (Sito 2006: 1989).

### **3.3.3 The Rise of Regional Production Networks in East Asia**

American producers farmed out labor-intensive tasks to overseas contractors, mostly to East Asia, and European and Japanese studios quickly emulated the American strategy. As offshore outsourcing became a prominent feature of global animation production, East Asian studios, notably in Japan, Taiwan, Korea and the Philippines, emerged as the world's largest animation suppliers by the mid-1990s (Lent 1998; Yu 1999b; Tschang and Goldstein 2010; Shiau 2008).

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<sup>16</sup> According to Scott (1984), 37 per cent of the respondents reported they were unemployed in May 1983.



The case of Hanna-Barbera is the prime example of this expanding international division of labor in animation. Once dubbed as the “General Motors of cartoons” (Sito 2006: 254), by the late 1970s the animation producer hired 2,000 employees in its Los Angeles headquarters. At the same time, it extensively used smaller subcontracting houses and at-home freelance workers to keep up with production quantity. In its peak year of 1978, Hanna-Barbera produced 10,000 feet of film a week, three-fourths of which were done outside the studio (Sito 2006: 254-255). The company established its first overseas studio in 1971 in Sydney. In 1978, the ex-Hanna-Barbera animator, James Wang, set up his own studio in Taiwan dedicated to outsourcing for American studios (Lent 1998). His studio in Taipei, Cuckoo’s Nest, soon was able to handle the entire process of main production, emerging as the largest outsourcing studio in Asia (Hanna and Ito 2000: 202; Sito 2006: 265). In Japan, Tokyo Mubi-Shinsha (TMS) and other studios were hired for Hanna-Barbera’s work. Dongsuh in Korea was established in 1974 by a Korean American animator, Steven Hahn, to start its first outsourcing work for American buyers (see Section 4.1.2 for more). In 1991, Hanna-Barbera set up a studio in the Philippines, called Fil-Cartoons, which employed as many as 1,200 animators at its peak (Tschang and Goldstein 2010: 135).<sup>17</sup> Beyond East Asia, Hanna-Barbera also farmed out various stages of its work to studios in Mexico, Spain and Poland. At one point in time, *eight*

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<sup>17</sup> By 1995, Hanna-Barbera owned a 30 per cent stake of Cuckoo’s Nest and had full ownership of Fil-Cartoons (Goll 1995).

countries were turning out over 100 half-hour shows for one season (Hanna and Ito 2000: 205). By the early 1980s, the company had established streamlined assembly lines that were spread globally, with a clear division of labor: pre- and post-production at home and main production abroad (Howell 1983: 38).

Japan quickly built a strong domestic animation industry that competes with the United States. In 1956, Toei Animation was established, introducing Disney's division of labor into Japan. The success of *Astro Boy* (1963) sparked a boom of TV animation over the 1960s (Furuta 2009; Yamaguchi 2004). The success of the Japanese animation industry was built in part upon its regional expansion. Confronting a post-boom oversupply, rising wages and militant labor in the early 1970s, Japanese studios began to contract out their own work and their client's work to studios in neighboring countries like Taiwan and Korea (Kusanagi 2003; Kim 2006). This regional expansion led to the rise of start-up animation studios in those countries during the 1970s and 1980s. Table 5 lists the major animation studios established in the 1970s in Korea and Taiwan. By the 1980s American and Japanese studios had established their own oversea production networks in Asia. These two production networks coexisted for the last three decades or

so and became intertwined because some of the outsourced work initially sent to Japanese studios was shipped out to smaller Taiwanese or Korean studios.<sup>18</sup>

**Table 5: Example of start-up animation studios in Korea and Taiwan in the 1970s**

Country	Company	Founder	Establishment	Major clients
Korea	Universal Art	Shin Dong-huhn & Jeong Byung-kwon	1973	Japanese studios, incl. Tatsunoko
	Sunwoo	Kang Han-young	1974	American studios
	Dongsuh (renamed Hanho in 1978)	Steve Hahn	1974	American studios, incl. Hanna-Barbera, Bakshi
	Daewon	Jeong Woo	1977	Japanese studios, incl. Toei Animation
Taiwan	Jer-Shio Fine Art Production House	Jei-Shio Chao	1970	Local market
	Eigin (aka. Yin-Zen)	Hsing-Kui Chen	1970	Toei Animation; Tokyo Mubi-Shinsha (Japan)
	China Cartoon Company	Dong Yo-Li	1972	Local market
	Cuckoo's Nest	James Wang	1978	American studios, incl. Hanna-Barbera
	Shun-Shun	N/A	1978	Tatsunoko (Japan)
	Long-Zu	N/A	1978	Tatsunoko (Japan)

Source: Korea – Author's interviews; Taiwan – based on Shiau (2008: 50-56)

Over this period, the structure of each network changed as the outsourcing strategies of lead firms and the upgrading paths of local suppliers evolved. Offshore outsourcing started with the simplest and most repetitive tasks in the main production phase (e.g., inking-and-painting). Offshore studios moved up to more complicated tasks

<sup>18</sup> This sort of hierarchical production network between the United States, Japan and Taiwan or Korea with American independent producers or Japanese contractors as a middle man, however, was challenged when Taiwanese and Korean studios began to make direct contracts with network buyers as their capabilities grew (Sito 2006: 278). Also, American buyers favored this direct sourcing because it cut costs to middlemen, according to my interviewees in Korea (Author's interview, Feb. 12, 2009). Finally, as domestic demand for animation was solidified and the value of yen rapidly rose after the Plaza Accord in 1985, Japanese studios lost interest in work-for-hire projects with Western clients. Toei Animation, for instance, discontinued its outsourcing service to U.S. studios in 1988 (Kusanagi 2003; cited in Kim 2006: 245).

(e.g., key animation and background drawing) as their skills advanced. This functional upgrading, albeit barely going beyond the main production phase, was greatly enabled by a close coordination between home and offshore studios and learning-by-doing.<sup>19</sup> This upgrading helped East Asian studios become the world's largest suppliers to U.S. and European markets by the mid-1990s.

Upgrading, however, was constrained in many cases due to the limited scope and the fragmented and seasonal nature of subcontracted work. Although there was a considerable difference between U.S. and Japanese production networks in what kinds of tasks are outsourced and how the outsourcing network is governed (see Section 5.2), generally the tasks outsourced had not gone beyond the main production phase until recently. Also the subcontracting studio is required to follow strict and comprehensive specifications elaborated in the pre-production stage by the home studio (Raugust 2004). Offshore suppliers are generally independent studios, indicating the limited role of vertical integration in animation offshoring. They rely on the buyers financially and creatively; most of their revenue comes from foreign buyers, as do creative ideas.<sup>20</sup>

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<sup>19</sup> Home studios in developed countries often sent their home supervisors overseas to closely monitor and communicate with their subcontractors. These supervisors, at the same time, became a conduit through which new skills, Western styles of animation, and the information of new market trends flowed down to the chains. Often, animators in subcontracting studios were invited to the home studio to learn such things in person (Winder and Dowlatabadi 2001; Vallas 1997).

<sup>20</sup> In the early days of offshore outsourcing, they also relied on input material like empty cels and paints from the buyers, but it is no longer the case, at least for Korea.

Home studios often divided the work across several subcontractors to avoid their dependence on any single one (Lent 1998). Finally, the seasonal nature of the work left offshore studios and workers with a recurring cycle of lay-offs and rehiring, which became the norm (Scott 1984).<sup>21</sup>

In short, vertical disintegration and cost-cutting pressure along the U.S. animation value chains together with labor conflicts in Hollywood led to the first wave of globalization in the post-war animation industry. The rise of offshore outsourcing from the United States to East Asia since the mid-1970s brought forth the emergence of local suppliers in the region specializing in foreign work-for-hire projects. They were incorporated into regional and global production networks through U.S. and Japanese buyers, with increasingly sophisticated division of labor put in place across borders.

### ***3.4 Second-wave Globalization: 1990s to the Present***

The global animation industry has undergone significant changes since the 1990s in terms of technology, market, and institutions, generating a second-wave of globalization shifts. This section illustrates these new developments in animation markets in relation to the introduction of new technology and media, and the changing

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<sup>21</sup> In Korea, for example, subcontracting is concentrated between October and April to serve American TV networks whose new series start in September. Therefore, animators are temporarily hired during the busy season and then laid off in the slow-season. In the late 1990s, AKOM, the country's largest animation studio (established in 1985), hired 1,100 animators as temporary workers among the total of 1,200 animators in a busy season (Lent 1998).

geography of animation production as a result of, on the one hand, the relocation of animation outsourcing and, on the other hand, the growth of animation production in developing countries increasingly targeting regional and global markets. Finally, key institutional changes affecting this latest globalization wave in animation are discussed, notably new service trade regulations under the WTO regime, international coproduction, and active state support, particularly in Asia.

### **3.4.1 Global Animation Markets in Transition**

Since the early 1990s, animation markets in developed and developing countries have changed dramatically. Growing media concentration led to the decline of independent animation producers in Hollywood, which had been the key players in the expansion of TV animation in the previous decades. The rise of children's specialized channels and their global expansion have changed the power relations in the distribution node of animation value chains. Meanwhile, in many emerging markets, economic growth, the rise of urban middle class, and the introduction of new media have facilitated the expansion of media production and consumption. Witnessing the rising opportunities in foreign markets, Hollywood producers have been adjusting their approach to globalization. Finally, new technologies, such as computer animation, satellite TV and the Internet, reshaped the opportunities and constraints for upgrading in the changing markets. In the following, I discuss each of these market changes in turn.

The growth of media concentration in the 1990s in Hollywood ended the era of independent animation producers, particularly on TV. Hanna-Barbera, famous for *The Flintstones*, *Scooby-Doo*, *The Yogi Bear Show*, and *Tom and Jerry*, was acquired in 1991 by Turner Broadcasting System (TBS), which began to use the acquiree's animation library for its newly launched cable network, Cartoon Network. TBS also acquired Ruby-Spears in 1990. When TBS was bought by Time-Warner in 1996, Hanna-Barbera was absorbed into Warner Bros. Animation. Filmation closed in 1989 soon after being acquired by L'Oreal. Through acquisitions, many of the animation libraries created by these independents became valuable properties for newly emerging children's channels backed by media conglomerates.<sup>22</sup>

In the early 1990s, Fox Kids (established in 1990) and Time-Warner's Cartoon Network (1992) joined Nickelodeon and Disney Channel to compete in the growing children's channel market in the United States. The rise of these specialized channels has led to the declining role of network television in the production and distribution of TV animation. Saturday morning animation is no longer as popular as it used to be as more and more animation has been aired 24/7 in cable and satellite networks and the audience groups have become fragmented between boys and girls and among different age

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<sup>22</sup> There are some independent producers for TV animation in Hollywood, one of which is Film Roman, famous for *The Simpsons*.

groups.<sup>23</sup> Regulatory restrictions on advertising on children's program blocks have also played against network television in its competition with cable channels for kids' attention.

Gradually, network TV began to retreat from animation production and sell its air time and programming rights to third-party producers. For instance, after Fox Kids was dissolved in 2002, Fox entered into a deal with 4Kids Entertainment, an American children's program producer, to handle Fox's Saturday morning lineups (the deal ended in 2008). 4Kids also started a similar arrangement with Warner Bros. and CBS in 2008 as Warner Bros. decided to discontinue its in-house animation production. The Saturday morning blocks in their CW networks have since been programed by 4Kids (initially co-branded as *CW4Kids* and later renamed *Toonzai*).<sup>24</sup> Meanwhile, the role of cable networks has increased in animation. Nickelodeon first developed its own original animation series, dubbed "nicktoons," in 1991, including the successful *Rugrats* series (supplied by Klasky Csupo) (The Victoria Advocate 1991). In 1997-2002, Cartoon Network and

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<sup>23</sup> Kay Koplowitz, the president of USA Networks, said on November 1997, "We had a lot of the Hanna Barbera product and there was very little competition for us. Now, Nickelodeon has come on very strong with the original programming. Fox Kids is in the market. Disney, Warner Bros are very strong in the marketplace and of course Turner has the Hanna Barbera product as well as WB Kids product... (the) kids market has turned into a full-blown, 24-hour marketplace for any of these channels and so there's a lot of concentration and if you're a minor player... it's hard to compete" (cited in Westcott 1999: 65).

<sup>24</sup> <http://en.wikipedia.org/wiki/4kids>



Nickelodeon invested \$350 to \$400 million respectively on original animation (Westcott 1999: 47).

Naturally, the influence of cable networks on offshore outsourcing has increased, replacing the role played by independent producers. Cable networks usually have small internal planning/acquisition units while the entire production is outsourced mostly to overseas studios. Their influence as well as their program needs have increased as they expanded their channel operations to foreign countries. Facilitated by the deregulation of broadcasting policy and FDI, they have made significant inroads in many international markets, as shown below in Table 6. These majors set up their own channels, a joint partnership with a local channel provider, or bought out program blocks from local providers and rebranded them with their own name. Their core competency includes widely-known brands, such as Disney, and thousands of hours of libraries that can be directly supplied from their parent companies for a low license fees. With this expansion, they can earn additional revenue from subscription and advertising fees both at home and abroad (Westcott 1999: 63-69).

**Table 6: Timeline of international expansion of U.S. children's channels, 1992-1999**

Year	Cartoon Network	Fox Family	Disney Channel	Nickelodeon
1992	Launched in U.S.			
1993	Latin America Europe			UK
1994	Asia			
1995	Africa		Taiwan UK	Germany Australia
1996	24-hour digital feed in Europe	UK channel Latin America	Australia Malaysia	Latin America
1997	Dutch feed Italian feed Swedish/Danish feed	Netherlands (block) France	France Middle East	Nordic region Turkey
1998	Japan French feed Polish feed	Poland, Scandinavia Spain Netherlands	Spain Italy	Germany (closed) Brazil feed Hungary, Philippines; CIS/Baltic states
1999		Australia Romania, Russia		Indonesia, Spain

Source: Westcott (1999: 70)

Their presence does not automatically guarantee success because it requires significant costs in setting up channels and they have to compete with local networks and cable/satellite providers, which closely follow the program and marketing strategies of their global competitors (Westcott 1999: 75-76). However, the rising clout of international markets cannot be overlooked given the relatively slow growth of audio-visual markets in advanced economies like the United States, Europe and Japan and the fast growth of emerging markets. Foreign ticket sales now exceed domestic gross for Hollywood films (68 per cent in 2010) (Shucker 2010). In 1999-2009, China, Russia, India and South Korea all increased their shares in global box office gross, while the United States, Japan, UK, and Italy all lost their contributions to global film revenue (see Table

7). While still dominating with a 33 per cent share of the global market, Hollywood's domestic backyard market share dropped by eight per cent. And this shifting balance is forcing Hollywood producers to rethink their conventional globalization strategy of bringing whatever is successful in the home market to foreign markets (Shucker 2010).<sup>25</sup>

**Table 7: Contributions to total global box office: Markets in growth and decline**

Top 5 markets in growth				Top 5 markets in decline			
Country	1999	2009	% change	Country	1999	2009	% change
China	0.7%	3.1%	2.4%	U.S.	40.8%	33.0%	-7.8%
Russia	0.1%	2.4%	2.3%	Japan	9.5%	7.5%	-2.0%
India	2.6%	4.8%	2.2%	U.K.	6.2%	5.0%	-1.2%
South Korea	1.8%	3.1%	1.3%	Italy	3.4%	2.9%	-0.5%
France	5.3%	5.9%	0.6%	Argentina	0.9%	0.4%	-0.5%

Source: Screen Digest Cinema Intelligence Service; "World-Wide Ticket Sales, by Country," *The Wall Street Journal*, Aug 1, 2010 at [http://s.wsj.net/public/resources/documents/st\\_20100723.html](http://s.wsj.net/public/resources/documents/st_20100723.html)

The growth of audio-visual sectors in emerging countries is due to the rise of viewership as well as ancillary markets. On the one hand, it is facilitated by the growth of urban middle class as a result of economic development who can spend their income in audio-visual entertainment. On the other hand, rising investment in multiplexes and the expansion of cable and satellite networks, both locally and foreign-owned, and now the Internet are driving market demand with increased supply. In animation, the blockbuster success worldwide of Disney features, such as *Aladdin* (1992) and *Lion King* (1994), led the animation boom of the 1990s, cultivating animation audiences globally.

<sup>25</sup> "It is not about bringing Hollywood tactics to the foreign markets... It's about participating in a local culture enough to create a product that those audiences will actually watch," said Sanford Panitch, a veteran film executive (cited in Shucker 2010: A8A)

While the recent economic crisis shrank the overall size of spending in entertainment, animation is considered as one of the reliable sources for Hollywood majors for family entertainment (Barnes 2011).<sup>26</sup> In 2010 a half of the top 10 grossing films in the United States and worldwide were animation, including *Toy Story 3* at the top of both lists, and they are all ranked on the top 20 all-time animation list (see Table 4 above).

Another significant change over the last decade is the introduction of digital technology. As confirmed in Table 4, computer animation is now dominating the feature film market. It has become popular with the big successes of *Toy Story* (1995) – the first fully computer-graphic animated feature film – and *Shrek* (2001). Photo-realistic, computer animation has been welcomed by major U.S. studios given the promise of lower production costs and a higher profit margin than 2-D animation, although actual production costs have gone up for some high-end 3-D animation as more sophisticated depictions are required (Barnes 2011). The favorable acceptance given to computer animation has led major studios like Disney and Fox to close all of their 2-D operations in favor of 3-D production (Tschang and Goldstein 2004), posing a challenge to traditional 2-D offshore studios.

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<sup>26</sup> The total gross and tickets sold of films in the United States declined in 2010 by 0.3 per cent and 5.2 per cent, respectively, compared to the previous year (Box Office Mojo, “Yearly Box Office - Domestic” at <http://www.boxofficemojo.com/yearly/?view2=domestic&view=releasedate&p=.htm>).

Digital technology has changed 2-D animation as well; now many of the tasks done by hand in the past are carried out by computer. Digitalization offers animators a great degree of flexibility and time-saving, although it poses a challenge to skill upgrading. More important, the boundaries of animation have been blurred, moving it closer to other entertainment domains, such as special effects and video games (Krikke 2006). Also, as exemplified in the latest stereoscopic 3-D films, such as *Avatar* (2009), the use of computer animation techniques is going beyond traditional, fully animated films into a wide array of audio-visual products. While some animation studios and countries see this as a new chance to expand their power and profits, others find themselves more vulnerable to the competition because technological convergence is likely to intensify.

### **3.4.2 Redrawing the Geography of Animation Production**

These new developments in markets and technology outlined above have influenced the geography of the international division of labor in animation since the 1980s. The traditional geography of global animation production, concentrated in a handful of East Asian countries, has changed. Lead firms have shifted their production locations to emerging economies. They began to tap into China, India and other lower wage East Asian countries (Milic and McConville 2006). This movement of lead firms brought an outsourcing boom to those new destinations, while studios in Taiwan, Korea and the Philippines experienced a sudden decline of foreign outsourcing orders (see

Section 4.4.1 for Korea). Some of these Asian studios also joined the trend by farming out their work to other neighboring Asian countries, such as Thailand, Vietnam and North Korea (Lent 1998). Along with this intra-regional relocation within Asia, new locations have emerged for animation outsourcing as European producers tapped into former Communist countries in Eastern Europe, such as Poland and Hungary, and some African countries like South Africa and Senegal (Robinson 2004).

The geographical shift, while initiated by lead firms, also was driven by local entrepreneurs to bring those outsourcing contracts to their country. As shown in the case of India (see Section 7.2), some countries had had little substantial human and physical infrastructure necessary for animation outsourcing, let alone the culture of commercial animation-making, by the time foreign outsourcing first landed. The task of building such an industrial base needed to secure and maintain foreign orders has largely remained with local independent suppliers, although they receive better public support, such as government subsidy, in some countries than in others.

New types of animation production chains have emerged over the last decade, providing new upgrading opportunities. Local suppliers catered to the growing audience of young, urban, middle-class consumers that, while being familiar with Hollywood animation, want to watch animation based on their own local stories. This has led to the rise of domestic and increasingly regional animation markets for cultural products. Over the last decade, Korean animation turned from the development model

based on offshore outsourcing into producing original animation for domestic and global audiences (see Section 4.4). Chinese studios have increased the production of locally created animation, strongly supported by the Chinese government. In India, where animation became the “next big thing” in its offshore outsourcing-driven development, “desi” (home-grown) animation has emerged as a keyword since the mid-2000s (see Chapter 7).

Finally, as more global producers try to enlist creative talents outside advanced markets, the conventional line in the division of labor, which is pre- and post-production in developed countries and main production in developing countries, has been increasingly blurred. Some pre- and post-production tasks are now outsourced to studios in Korea, Taiwan and India as financially pinched producers are seeking additional ways to cut costs. Developing country firms are aware of this upgrading opportunity as well as the importance of linking with international players to market and distribute their own products to overseas.

This mutual interest, in addition to public support from many governments such as coproduction treaties, has led to the rise of international coproduction, particularly in TV animation. International coproduction is a cross-national commercial partnership to pool together various resources – creativity, finance, production, marketing, distribution and merchandizing – on a project basis and share the revenue (Hubka 2002; Hoskins et al. 2003; Strover 1995). As discussed below (Sections 5.3 and 7.3.2), developing country

firms can join international coproduction not only to provide production services as a supplier, but also to offer their creative or financial inputs and learn from their international partners. Therefore, it can help those suppliers increase their gains from the global economy by participating in higher value-added tasks, although there is a possibility for it to be a disguised form of offshore outsourcing.

At the same time, the rise of international coproduction has increased the role of the studios from countries with significant public institutional support for international coproduction projects, notably France and Canada, in governing such cross-national arrangements (Westcott 2002). This highlights the role of institutional environments in the global cultural economy, as discussed in the following section.

### **3.4.3 Changing Institutional Environments: Global and Domestic**

International institutions regulating the cross-national trade of cultural products had largely been absent until the last decade. As noted in Chapter 2, the idea of “free flows of information” advocated by Western governments and media companies dominated much of the post-war period in terms of governing cross-national media flows. However, as global cultural trade gained significance, issues like IPRs and cultural protection have become contentious in international trade negotiations, notably the Uruguay Round multilateral trade negotiations in 1986-1994 under the General Agreement on Tariffs and Trade (GATT) (Miller 1996). Global media giants are keen to



globally ensuring the protection of their property rights as they move into newly liberalized media markets abroad. Without such protection, profits cannot be realized in cultural products, many of which are intangible in nature.

As national media markets were deregulated and liberalized, whether cultural sectors should be treated as an exception to free trade is a thorny issue. The proponents of this cultural exception/diversity idea argue that countries have a right to protect their own cultural heritage and need measures to ensure the preservation of cultural diversity in the face of imported media content. This is a revival of the debate in the 1960s and 1970s between the free flow argument and the cultural imperialism critique in a new media landscape that increasingly is liberalized, commercialized and globalized.

These new international institutional settings have played out at national and local levels in various ways. First, in the face of neoliberal pressures, many governments have deregulated and liberalized their national and local media markets. To some degree this created competition and brought more choices in channels and the content to consumers; however, deregulation often ended up with increased consolidation as many of the new licenses fell into the hands of large transnational and regional media conglomerates.

Second, for different reasons, governments at various levels have become more active in their efforts to preserve, protect, and promote their cultural industries.

Municipal governments use cultural and creative industries and clusters as a

revitalization of urban areas; national governments support cultural projects to preserve their cultural heritages and diversity; and others are more keen to use a wide range of post-industrial sectors, from IT to creative industries, to bolster their national competitiveness in the global economy (Hesmondhalgh 2008; Crane 2002; Power and Scott 2004).

These national/local responses to the pressures of cultural globalization have major consequences not only for the country's cultural industry, but also for the structure of global cultural industries. For example, some countries like France and Canada have a public funding system to financially support cultural projects that qualify as local ones. Such a system can help animation producers from those countries to be in a better position to lead an international collaboration because they can bring additional financial resource to the table, as in the case of international animation coproduction (see Section 5.3). Bilateral coproduction treaties can promote cultural projects that support employment and preserve cultural identities in the countries involved as well as cultural exchange between them, as in the case of French-Canadian coproduction treaties. These institutional arrangements, at the same time, create a barrier for firms not in the institutional network to participate in international partnerships.

### **3.5 Conclusions**

The animation industry has been globalized over the last four decades. The first wave of globalization mainly involved the vertical disintegration of Hollywood and the offshore outsourcing of animation production, which eventually led to the global production networks linking the United States, Japan and East Asian countries like Korea. The second wave of globalization involved the rise of media conglomerates and their global expansion as well as the relocation of animation outsourcing and the emergence of animation production and consumption in emerging economies. This development has generated a more complicated dynamic in global cultural flows, which is distinctive from a simple model of offshore outsourcing in labor-intensive tasks from advanced economies to developing countries. New institutional environments, both international and domestic, reflect these changes in the global cultural economy. The chapters to follow examine how the animation industry in Korea has been shaped by and responded to these globalization waves.

## 4. GLOBALIZATION AND THE KOREAN ANIMATION INDUSTRY

### 4.1 Introduction

The Korean animation industry has undergone three distinctive phases since the mid-1960s in terms of development patterns. The development path has been constructed throughout the phases by interaction between the local animation industry and global and regional production networks. The first phase leading up to the mid-1980s is characterized by a gradual integration to global animation production networks through small-scale outward processing. The ensuing large-scale, outsourcing-based export growth defines the second phase up until the end of the 1990s, which also features the gradual revival of local production. The third phase is the outcome of a breakthrough in the late 1990s toward an upgrading model based on local production and international coproduction.

Table 8 summarizes the development path of Korean animation industry over the three distinctive phases.

**Table 8: The development path of the Korean animation industry**

	<b>Phase I (1966-1985)</b>	<b>Phase II (1986-1999)</b>	<b>Phase III (2000-Present)</b>
<b>Development mode</b>	The rise of offshore outsourcing-oriented export	Intensification of offshore outsourcing-based export	Original production-based export
<b>Global-local linkage</b>	Small-scale outward processing	Large-scale main-production outsourcing (particularly for U.S.)	Combination of original animation export and international coproduction
<b>Local production</b>	Shrinking after an initial boom	Gradual rebuilding of local production system	Expanding, particularly for TV animation
<b>Key industrial actors</b>	Foreign buyers (Japan, U.S.)	Local major outsourcing suppliers; foreign buyers (U.S., Japan, Europe)	Local original producers; the state; foreign coproduction partners

## **4.2 Small-scale Outward Processing: 1966 – 1985**

### **4.2.1 The Inflow of Foreign Animation**

The animation industry emerged in post-war Korea as Western animation, such as Walt Disney's *Peter Pan* (1953, released in Korea in 1957), was imported for theatrical release in the late 1950s. As TV broadcasting began in the 1960s,<sup>1</sup> imported animation from the United States was aired on TV, such as *Mighty Mouse* and *Heckle and Jeckle*, and these were joined by Japanese animation from the early 1970s (Hwang 1998: 177). This genre of animation was noble enough to stimulate Koreans' imagination (Shin 1999), which led to local efforts to create their own. In 1956, the first locally produced animation was broadcast on air as a TV commercial, and fledgling TV broadcasting

<sup>1</sup> In Korea, television broadcasting was first launched in 1961 by the Korea Broadcasting System (KBS), followed by Tongyang Broadcasting System (1964) and Munhwa Broadcasting Corporation (MBC, 1969).

encouraged the production of more animated commercials in the following decade. In 1967, the first Korean animated feature, *Honggildong*, was released in theaters. It was based on a well-known old Korean novel about a Robin Hood-style hero and was produced by a local film company that also owned theaters and imported many Western animations. It drew more than 380,000 viewers during the first two weeks in theaters, ending up as the second most highly-attended domestic film of the year.<sup>2</sup> The commercial success of this local animated feature soon generated an animation boom as eleven local animated features were released over the next five years (Hö 2002; Hwang 1998: 152-156).

Meanwhile, another stream of globalization reached the country almost concurrently, that is, animation outsourcing. The first outsourcing work was shipped from Korea to Japan in 1966. Tongyang Broadcasting System, a new commercial TV network, established an animation unit to work on a TV animated series for a Japanese studio.<sup>3</sup> The network's studio recruited and trained a first generation of animators with the help of a Japanese buyer. Yet, the flow of contract work from Japan was spotty at that time, and the studio finally closed out in 1969, largely due to insufficient foreign orders (Hö 2002; Hwang 1998). The shortage was relieved by the early 1970s as Japanese

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<sup>2</sup> *Honggildong* was a full animation consuming over 60,000 cels, indicating a substantial capital investment in the project considering that key supplies like cels were significantly lacking at that time (Hö 2002: 37-42).

<sup>3</sup> This became possible because Korea reestablished its diplomatic and economic relations with the former colonizer in the previous year.

studios farmed out some of their work to Korea as a result of the rise of TV animation production as well as rising wages and labor dispute at home.<sup>4</sup> This growing inflow of outsourced work led to the establishment of several new local studios over the decade, most of which were hired for the simplest tasks, such as inking-and-painting (Hwang 1998: 184-185; Vallas 1997).<sup>5</sup>

A few years after offshore outsourcing with Japan launched in animation, American studios also began to hire Korean animators, initially to add color to old black-and-white American animation (Hwang 1998: 182-183).<sup>6</sup> A more consistent outsourcing linkage was established in the early 1970s when a Korean-American immigrant, Steve Hahn, brought to Korea animation projects from the U.S. studios which he had worked for, such as Hanna-Barbera and Bakshi Productions. When he established Dongsuh [Dongseo] Donghwa (later renamed Hanho) in 1974, Korean animators mostly worked on in-betweens and coloring, and many American staff were

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<sup>4</sup> Following the success of *Astro Boy* (1963), the first Japanese TV animation, the number of TV animation series produced more than doubled from 9 to 20 in 1964-1970 (Furuta 2009: 199). Toei Animation, one of the largest studios in Japan, started to contract out its work overseas in 1973 (Kim 2006: 216).

<sup>5</sup> Universal Art, for example, was established in 1973 and hired by Tatsunoko Production for its famous TV series, *Science Ninja Team Gatchaman*. It had been working for the Japanese studio in 1981, when one of my interviewees first started her career as a painter at the Korean studio (Author's interview, Feb. 25, 2009). Over the early 1970s, smaller new local studios, such as Golden Bell, Donggi Dongwha and Yoonsung Silup, were established and worked for Japanese studios (Hwang 1998: 183).

<sup>6</sup> American TV broadcasting networks were turning to color programming in the late 1960s and the animation studios sold old classic animation in their libraries only by turning them into color animation with the help of a foreign animator.

present in the studio to control the quality of work done by Koreans and take charge of more technically sophisticated tasks, such as composition. By 1978, however, as a result of quick skill upgrading, Dongsuh was able to handle the full scope of main production – from animation through composition – with the assistance of a fewer foreign staff. It quickly grew to hire as many as 300 animators at one point in the late 1970s (Author's interview, Apr. 23, 2009). Other Korean studios, such as Seyoung, Sunwoo, Dongyang and Daiwon, quickly followed suit in a highly competitive environment for securing outsourcing orders (Vallas 1997).<sup>7</sup>

This gradual integration of the Korean animation industry into offshore outsourcing networks run by Japanese and American studios led to the increase of Korea's animation exports in the coming decade. According to official statistics, exports grew from a mere \$0.2 million in 1980 to \$1.6 million in 1982 and \$3.7 million in 1985 (see Figure 3 below). While it was still a very small fraction of the country's total exports (0.012% in 1985), animation exports were growing fast enough to draw local media's attention. A local newspaper ran an article in January 1981 on the growth of animation exports (Lee 1981). According to the news report, there were six animation-exporting studios, hiring as many as 400-500 animators in total, and these studios exported two-

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<sup>7</sup> Some of the U.S. studios on the buyer list of Korean suppliers in this early period were Hollywood-based independent productions like Ruby-Spears and Depatie-Freleng, in addition to Hanna-Barbera and Bakshi (Vallas 1997).



million dollars' worth of animation in 1980.<sup>8</sup> The report also pointed out that the studios remained in the role of simple processing for foreign studios and therefore needed to be able to handle entire season contracts.

#### **4.1.2 The Path toward Export-oriented Industrialization**

The first wave of globalization in animation had a profound impact on the nascent Korean animation industry. The inflow of imported animation and outsourced work shaped the subsequent development of the industry.

First, a labor force for the industry was built up. Imported animation sparked the interest of Koreans on the medium, but offshore outsourcing critically expanded the workforce base of the industry. While remaining in small-scale, the continuous inflow of foreign projects since the 1970s required a substantial number of animators, as exhibited by the employment growth of Dongsuh. Korean animators were trained by foreign staff. Those who were recruited by the TBS studio were trained and supervised directly by a veteran Japanese animator who was sent by Toei Animation, its client, for the entire

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<sup>8</sup> There are a few possibilities of why the figure reported in the newspaper, which was based on an unidentified industry source, was considerably different from the figure collected by a trade association (Figure 3). First, some studios did not incorporate until their business became stable after a couple of years in the outsourcing business. Second, studios might underreport their exports partly to reduce their tax. Third, often the transaction between foreign studios and Korean suppliers was informal with little documentation, particularly in Japanese chains. In fact, one of my interviewees who had worked for Japanese studios for more than a decade informed me that occasionally his Japanese buyers paid his company in cash at the spot. For these reasons, the official statistics might underestimate the actual exports. However, to maintain consistency across years, this study uses the officially collected export figures, which have been used by other authors. While the differential is much smaller, the 1993 figure in Table 10 below based on industry sources is also bigger than the export figure of the same year in Figure 3.

period of the project. Relatively high wages by local standards and no requirement for formal degree attracted the young to animation outsourcing, although many of them came from related backgrounds like cartoon-drawing and had a formal college degree.<sup>9</sup> In 1984, the first private institute was established in Seoul to train students for animators, reflecting a growing demand for the profession (Author's interview, Mar. 10, 2009).

Second, a division of labor between foreign buyers and Korean studios had been established in the latter portion of this phase, particularly in U.S.-oriented chains by the early 1980s as offshore outsourcing became full-blown after the two animator strikes in Hollywood (see Section 3.3.2). American studios provided pre-production materials, including scenarios, while Korean suppliers assumed the full range of main-production tasks from animation to photographing, although necessary equipment and key supplies, such as paints, were still imported (Hö 2002: 57-58).<sup>10</sup> While foreign contracts were still small in quantity and limited in work scope, Korea's initial global integration set the ground for further industrial development in terms of workforce, skill-sets and local

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<sup>9</sup> Animators working for foreign projects were paid considerably more than average workers, making them one of the highest-paid workers by the early 1980s (Author's interviews, Feb. 12 and Apr. 23, 2009). Their higher wages stood out because the job required neither high skills nor a formal degree, particularly for the tasks assigned to Koreans. At the same time, it reflects the low-skilled nature of the work assigned to Korean studios at the time. One of my interviewees joking told that anyone with a week of basic training could have earned enough to compensate their commuting costs (Author's interview, Feb. 12, 2009).

<sup>10</sup> In the Japan-oriented chain, a division of labor remained much flexible and varied by project, which distinguished Korean suppliers in the chain from those working for American studios, as discussed in the next section.

suppliers. The potential was realized, as shown below, with the rapid export growth in the subsequent phase when foreign buyers came to farm out bigger-budget projects to Korea.

Finally, the rise of offshore outsourcing as the major mode of development for animation resulted in the quick demise of a nascent local production. Expectations for higher wages and a greater opportunity for working on large projects drew many talented Koreans to offshore outsourcing at the expense of local production. The labor market of skilled animators was tight enough to create a “porch” among local outsourcing studios (Vallas 1997). As a result, following the initial boom created by the success of *Honggildong*, no new animated feature was produced in 1972-1976 in the midst of a shortage of skilled workforce and sparse investment in domestic production (Hwang 1998: 156). The situation was worsened by the popularity of live-action films, both locally produced and imported, as well as the rise of TV viewership in the 1970s.<sup>11</sup>

The growing local TV market was quickly crowded by imported animation, increasingly from Japan, which further discouraged local production. As with many TV networks in developing countries in their early years facing the lack of locally produced programs (Straubhaar 1991: 44), Korean TV stations relied on imported animation

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<sup>11</sup> The number of households that owned TV sets increased from 30,000 in the early 1960s to 2.5 million in 1974 (Hwang 1998: 177). Facing competition, animated features were promoted with their big-screen size and all-color to compete with TV animation, which was still black and white (Hwang 1998: 155).

because it was cheaper and commercially proven in advanced markets.<sup>12</sup> Although Japan's popular culture, like film and music, had been widely banned by the Korean government for importation since Independence in 1945, Japanese animation continued to be imported because it was regarded as children's programs, which remained an exception to the ban that continued until the early 1990s.<sup>13</sup> And the abundance of Japanese animation on Korean television was accelerated by Japanese animation studios' efforts in the 1970s to increase their exports in the face of rising competition at home (Yamaguchi 2004: 99).

From the late 1960s onward, Korea embraced the inflow of western animation both as a final product and as a semi-processed one, waiting for Korean hands for further processing. The coming of the first-wave of globalization in animation, after a brief local animation boom, turned the trajectory of the country's industry to export-oriented industrialization, as in its better-known cases of manufacturing (Amsden 1989; Deyo 1987; Haggard 1990). The inflow of foreign animation did not immediately push out local production, unlike what the cultural imperialism argument might expect, but

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<sup>12</sup> In the late 1980s, a 30-min imported TV animation cost approximately \$1,500 (KRW 1.2 million), while the cost of producing a domestic animation was over 40 times higher, approximately KRW 50 million (Hö 2002: 107).

<sup>13</sup> The country of origin of Japanese imported animation was often hidden or misrepresented as American so that Korean viewers could not recognize them as Japanese (Hö 2002). It was in the 1990s that it became known to the Korean public that many animations aired on Korean TV in the past decades, in fact, were Japanese imports.

rather generated aspiration among Koreans, albeit briefly, for creating their own animation. However, when a potential path for building a robust local production system was no longer viable, it was not only because of the domination of Western animation but also the expansion of the regional and global division of labor that diverted local talents, investments, and entrepreneurs away from that alternative path. In addition, the indifference shown by the government and local TV stations to the protection or promotion of local animation content ended up placing Korea at the consumption node of Western and Japanese animation.

This initial path-making was driven by foreign studios that pioneered offshore outsourcing to take advantage of lower costs for labor-intensive tasks. Local entrepreneurs, including return migrants, quickly seized the opportunity. While local TV networks decided what the viewers would watch, the impact of the state on the animation industry was minimal.<sup>14</sup> By the end of this phase, offshore outsourcing-based animation production had become firmly established in Korea.

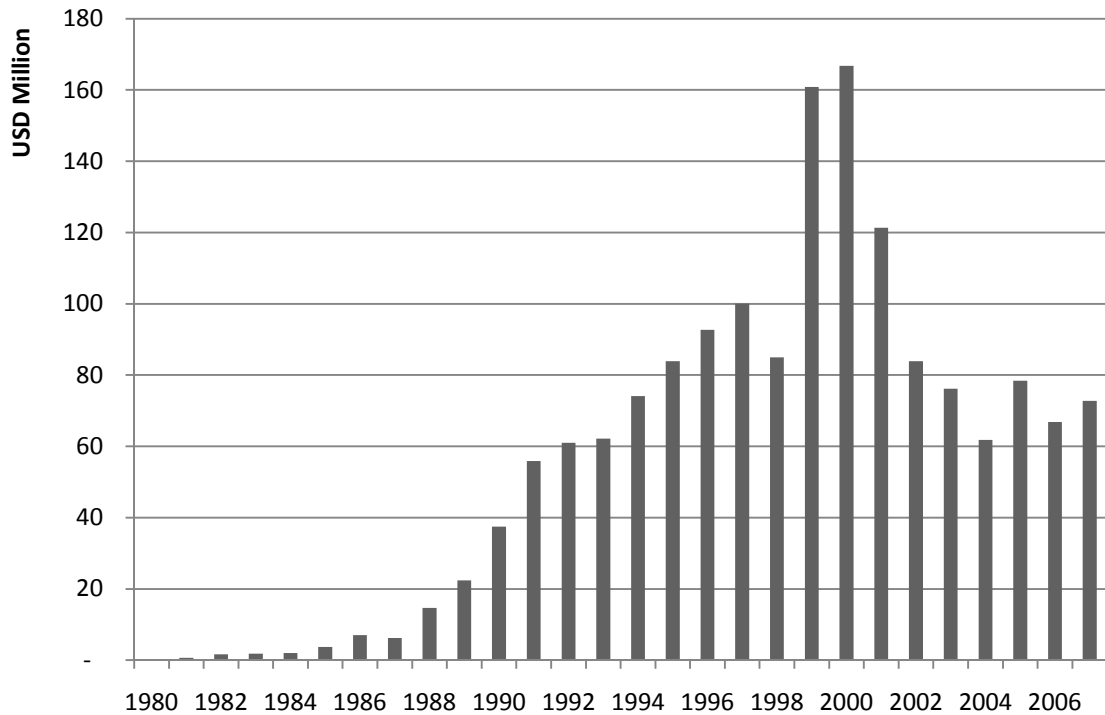
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<sup>14</sup> The (non-existing) role of the state in this period is discussed in detail in Chapter 6.

## **4.3 Large-scale Offshore Outsourcing and Export Growth: 1986 – 1999**

### **4.3.1 The “Golden Age” of Animation Export**

The latter half of the 1980s was, according to a foreign observer, “a marked beginning to Korea’s golden period” in animation as far as outsourcing exports were concerned (Vallas 1997). Exports dramatically increased during the next 15 years, marking a staggering twelve-fold growth, from \$7 million in 1986 to \$84 million in 1995. It reached to \$167 million in 2000 after a slight hiccup in 1998 (see Figure 3). The export expansion was completely driven by offshore outsourcing, which accounted for 97 percent of 1999 exports.



**Figure 3: Korean animation exports, 1980-2007**

Source: 1980-1993, Yi (1994); 1994-1996, Korea Broadcasting Development Institute (1997); 1997-2002, *White Paper on Cultural Industries*, annual volumes; 2003-2007, *White Paper on the Animation Industry*, annual volumes.

The United States emerged as the major destination of Korean exports, representing 73 percent of total outsourcing exports, while Europe and Japan garnered 21 per cent and five per cent respectively, as shown in Table 9 (MCT 2000).

**Table 9: Regional share of Korea's animation exports, selected years**

	<b>United States</b>	<b>Japan</b>	<b>France</b>	<b>Germany</b>	<b>Others</b>	<b>Total</b>
1988	52.8%	36.3%	7.4%	0.0%	3.5%	100.0%
1989	77.5%	6.9%	11.9%	0.1%	3.7%	100.0%
1990	70.3%	10.3%	11.2%	0.2%	8.0%	100.0%
1991	68.4%	4.1%	12.6%	0.0%	14.9%	100.0%
1992	73.7%	5.3%	7.2%	0.2%	13.6%	100.0%
1993	74.3%	4.8%	13.4%	2.0%	5.5%	100.0%
	<b>North America</b>	<b>Asia</b>	<b>Europe</b>		<b>Others</b>	<b>Total</b>
1999	73.2%	21.5%	5.0%		0.3%	100.0%

Source: KOTRA statistics, cited in Lee (1994: 43); MCT's *Statistics of Cultural Industries 2000*, cited in Kang and Ch'oe (2001: 7)

This qualitative change in the export growth rate is attributable to several factors.

First, the global expansion of the animation market in the 1990s increased the inflow of outsourced work to Korea. Disney's animated features were a series of global success over the decades: *The Little Mermaid* (1989); *Beauty and the Beast* (1991); *Aladdin* (1992); *Lion King* (1994), and so on. And the increased competition among global children's channels, as noted, helped the growth of TV animation production, in which offshore outsourcing played a significant role (see Section 3.4.1).

Second, offshore delivery systems were in place between Korean suppliers and foreign buyers. As Japanese studios outsourced more of their work to Korea, they began to develop a regular collective delivery system (termed "*hyōphoep'yōn*") around 1991. The regularization of offshore delivery on a daily basis expanded transactions between the two countries, increasing the number of firms involved in offshoring at the both ends (see Section 5.2.2). In U.S.-oriented chains, a clear division of labor was established



between the two parties (Vallas 1997). As offshoring became the norm in animation-making, “much animated television work leaves this country [the United States] after only the initial scripting, recording, and design stages have been completed, and returns in the form of finished negative” (Howell 1983: 36).

Third, the upgraded skills of Korean animation studios helped attract major American studios, such as Warner Bros., Disney, Fox Animation, Marvel, Film Roman, and DIC (Euro-American). These studios were all involved in outsourcing to Korea during this period. Once capable of handling the entire scope of main-production, Korean studios began to directly contact American studios and cable networks to secure contracts, bypassing Japanese or Taiwanese intermediaries (Author’s interview, Feb. 12, 2009). This coming of big-budget American studios, in particular, turned out to be critical in the rapid growth of exports for various reasons, compared to Japanese studios, which are discussed below.

#### **4.3.2 U.S. Export Chains as a Growth Driver**

The reasons that the American lead firms were important in Korea’s export growth are rooted in their differences with European and Japanese firms. While Chapter 5 is solely devoted to this topic from a GVC perspective, this section outlines the major differences between U.S.-oriented chains and Japanese-oriented chains to explain why the arrival of big U.S. buyers resulted in the sharp growth of exports.

American major studios tended to be big-budget producers compared to their European and Japanese counterparts. This budget difference was partly due to the fact that U.S. animation generally used more frames per second than Japanese animation, which extensively employed a limited animation technique. According to one estimate in 2001, a half-hour American TV animation required as many as 20,000 cells with a cost of \$400,000, while the Japanese one of the same length usually used only 3,000-4,000 cells at a production cost of \$80,000 (Kang and Ch'oe 2001:40). While this did not necessarily mean the Korean studio hired by a U.S. studio was paid five times more than one hired by a Japanese buyer, this is sufficient to suggest a significant difference in the scale of a project between the two chains.<sup>15</sup>

This difference was accelerated by the scope of work outsourced to Korea. Usually one main Korean contractor took charge of the main production of the entire season, and it was not very often that a season volume, for example, 24 episodes, was split between two or more main suppliers. American studios generally prepared a full-package pre-production material (dubbed “a bible”), putting together all the detailed instructions necessary for main production before being handed out to overseas contractors. Although overflow work was subcontracted by the main contractors to

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<sup>15</sup> While the exact budget size may vary by project and the average would fluctuate over time, according to my interviewees, this budget difference is still the case, confirming that U.S. animation projects are most lucrative followed by European and Japanese ones.

smaller studios or freelancers, usually the entire responsibility for main production fell on one (or two) primary contractor(s) (Vallas 1997).

In contrast, in Japanese chains, most Korean suppliers until the late 1990s assumed a portion of main production, typically lower value-added tasks of main production like in-between, inking, and coloring (Author's interview, Feb. 25, 2009). Furthermore, the scope of tasks that were expected for one supplier varied by project or even by episode. How to split the work and assign it among suppliers was decided by the Japanese main producer. A season volume was frequently split among several different Japanese and Korean suppliers located at the bottom of the complex, multi-layered subcontracting hierarchy, making the actual portion of work for a given Korean supplier a lot smaller.<sup>16</sup>

For these reasons<sup>17</sup>, Korean outsourcing studios working for U.S. buyers were able to capture a larger gain from exporting as they began to engage in bigger budget projects compared to the previous phase. In 1988-2000, Korea's animation exports to the United States skyrocketed from \$7.7 million to \$128 million, while its exports to Japan grew much modestly, from \$5 million to \$12 million (Yu 1999a: 148; KCTPI 2002: 37). Much of

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<sup>16</sup> In 2001, a government survey shows that 37 out of a total of 76 offshore outsourcing projects came from Japan and 27 from the United States (KCTPI 2002: 56). But that year only 10 per cent of Korea's animation exports came from Japan, compared to 49 per cent from the U.S. market (KCTPI 2002: 37), indicating the lower value-added nature of Japanese projects.

<sup>17</sup> There are more differences between U.S. and Japanese chains. See Section 5.2 for more systemic comparison.

the growth in Japan-destined chains appeared to be attributable less to any change in the type of buyers than to the increase of outsourced work itself and the establishment of a regular collective delivery system. As discussed next, these differences affected the growth patterns of Korean animation studios in the two different chains.

### **4.3.3 The Growth Patterns of the Korean Outsourcing Suppliers**

As more outsourcing opportunities were available in animation, new studios quickly sprouted up. It is not easy, though, to estimate how many were established during this expansion period due to a dearth of information about the number of animation studios at the beginning of this phase. The membership of the KAPA, the first industry association in the business established in 1994, grew from 62 studios (Yoon 1995: 30) to 93 by 2001. A government survey in 1999 reported 168 animation studios in business (Kang and Ch'oe 2001: 11), although unofficial estimates, according to another report, went up to as many as 450 (KCPDI 1995: 30-31).<sup>18</sup>

The expansion of outsourcing opportunities, particularly from big U.S. buyers, became clear as new outsourcing studios quickly jumped onto the leader board in terms of exports. AKOM, for example, founded in 1985 by an ex-Marvel Korean animator, soon joined the leading group of the 1990s by securing the production of Fox Primetime

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<sup>18</sup> Vallas (1997) estimated that there were over 60 outsourcing studios, but he might count only the studios working for U.S. buyers given his exclusive attention to that chain and no mention on Japanese chains.

series, such as *The Simpsons* (Yoon and Malecki 2010). Other major exporters of the decade – Saerom Art (established in 1989), DR Movie (1990), Seoul Movie (1991), Dongwoo (1991), Hanshin (1992), and Rough Draft Korea (1992) – all were established by the early 1990s, competing with the first generation suppliers, which had been established in the previous phase, such as Sunwoo (1974), Daiwon (1977), Hanho (1978), Seyoung (1981), and Dongyang (1982).

The influx of outsourced work and the diversification of buyers also led to the rise of spin-offs. Suppliers often set up a separate entity to handle orders from new foreign clients. Ko Ko Entertainment was split from Dongyang, a major supplier for Warner Bros., in 1994. Sunwoo, which had emerged as one of the major exporters through working for Disney's TV series in the late 1980s, established Anivision Korea in 1991 and Grimsaem in 1997 to cater to Nickelodeon's own TV series and feature animation and Fox's *Family Guy*, respectively (Author's interview, Apr. 15, 2009).

The growth patterns of Korean suppliers for U.S. and Japanese chains were quite distinct. Given the scale and scope of work that was outsourced, U.S. buyers tended to prefer relatively big and established suppliers with financial and human resources sufficient to handle a large volume of work. In turn, by securing such sizeable contracts from U.S. buyers, even new studios were quickly able to emerge as major exporters (Author's interview, Mar. 10, 2009). The United States, unlike Japan, was the major buyer country to all of the top 10 exporters in 1993, as listed in Table 10. Furthermore,

the coming of big-budget U.S. buyers led to the consolidation of outsourcing business into a small number of local suppliers. The five largest suppliers – Seyoung, Hanho, Dongyang, AKOM and Rough Draft Korea – accounted for 56 per cent of Korea’s offshore animation exports in 1993 (Pak 1995), and the share of the top five went up to 60 per cent of total outsourcing exports by the mid-1990s (KCPDI 1995: 31).<sup>19</sup>

**Table 10: Leading animation exporters in Korea, 1993**

Company	Export (USD '000)	Contracted shows	Employment	Major buyers (countries)
Seyoung	10,800	120	300	Hearst & IDDH (U.S., France)
Hanho	8,000	80	300	Warner Bros. (U.S., Canada)
Dongyang	7,000	70	200	Warner Bros. (U.S., Japan)
AKOM	7,000	70	250	Warner Bros., Film Roman (U.S.)
Rough Draft Korea	5,200	35	120	Film Roman (U.S.)
Saerom	4,800	48	300	DIC (U.S., Germany, Spain)
Anivision	4,500	45	250	Film Roman (U.S.)
Sunwoo	4,000	40	200	Disney (U.S.)
Daehan Bangho	4,000	40	150	Warner Bros. (U.S., Canada)
Saerom PlusOne	2,500	25	100	MIK (U.S.)
Others	9,500	95	720	-
Total	67,300	668	2,890	-

Source: Pak S. (1995: 65)

In Japanese chains, by contrast, supplier concentration was much weaker. The limited scope and quantity of outsourced orders from Japanese buyers basically constrained the growth of Korean suppliers in those chains. Instead, lower entry requirements in capital compared to U.S. chains, and a close and long-term relationship

<sup>19</sup> For a higher potential for growth in U.S. chains, many Korean suppliers for Japanese studios, whenever an opportunity came, tried to switch to U.S. buyers, particularly large established ones, although not many succeeded in this chain switching (Author’s interview, Mar. 10, 2009).

between Japanese and Korean studios, facilitated the inclusion of many new, smaller studios into the chains. The Japanese producers more tightly controlled the entire production process across the two countries. For instance, while only a portion of work within the entire episode was assigned to a Korean studio, if the studio was not able to complete the portion as it was instructed, for example, due to higher skills required, the main producer assisted the foreign studio by handling the task in-house or assigning it to other studios (Author's interview, Feb. 25, 2009). This might hinder the upgrading of the less capable studio in the long run because of its continuing reliance on the partner studios in Japan, but at least the studio was not pushed out of the chain entirely.

In the end, all these differences generated two, largely segmented, supplier groups along the two different chains: a handful of relatively large suppliers catering to the U.S. market; and a Japanese-oriented supplier group with a large number of small studios, living in very different worlds of outsourcing and upgrading. Their different growth patterns suggest that the forms of international division of labor are not unitary but vary by chains, and regional supply chains are not always favorable to upgrading compared to chains for global buyers.

#### **4.3.4 Rebuilding Local Animation Production**

While eclipsed by the rapid expansion of export-driven development, another significant feature of this phase was the gradual rebuilding of a domestic animation

production system, which had been largely crippled since the late 1960s. This time the major break-through took place in TV animation. The first locally produced TV animation, *Ttötoli Kkach'i*, was produced and aired by the Korea Broadcasting System (KBS) in 1987. Encouraged by positive audience reactions, two national TV networks, KBS and MBC, produced and broadcast nearly 20 animations in the next five years. The broadcasting hours of domestically produced animation increased to 37 hours in 1987-1989 and 135 hours in total during the next eight years (Yu 1999a).

This sudden boom of local TV animation was initially driven by the Korean government (see Section 6.2.2 for more). After decades of economic growth, the government wanted to use two international sports events the country was hosting, the 1986 Seoul Asian Games and the 1988 Seoul Olympics, as a venue to express its national pride to the world. When it came to animation, however, the country's rising self-esteem confronted the reality that children's programming in national TV channels had been full of Japanese animation. Partly to avoid international embarrassment and partly pressed by the displeased public, the government directed the two national networks under the government's strong control in 1987 to produce original domestic animation. Although some of the animation produced in this period was later exported, that was not the original intention.

This renewed interest in animation reflected broader socio-economic changes in Korea in the early 1990s. As Korean's living standards improved following the high



growth era of the 1980s, local demands for audio-visual products rose among the growing middle class, urban population. In addition to the popularity of local animation, the success of Disney animated features in the early 1990s also helped the public's appreciation of animation as family entertainment.

These changes did not go unnoticed by the chaebol, Korea's big, family-owned conglomerates. By the early 1990s, they had been seeking a new source of business growth outside the manufacturing sector, where Korean firms faced international competition with newly industrialized countries in Asia, including China. Korean big conglomerates quickly recognized the economic potential of the entertainment business, such as film and animation, in the domestic market and their interest in this new growth market led to a decade of investment boom in film and other audio-visual industries (Shim 2002; Paquet 2005). As the first cable network licenses were issued, the first animation cable network was established in 1995 by one of the chaebol after strenuous political lobbying and fierce competition among them.

Finally, the government initially sought local animation to save the country's cultural pride in the late 1980s. However, as external pressure for trade liberalization in the audio-visual sector was mounting after the conclusion of the Uruguay Round in 1994, it began to pay attention to the economic and industrial aspects of animation and cultural sectors in general. As discussed in detail in Chapter 6, confronting the pressure

to open up the domestic cultural market to foreign investors,<sup>20</sup> the government felt the need to build up local cultural industries that could respond to challenges from the globalization of cultural industries.

Rebuilding local production networks in animation, however, faced a variety of challenges. TV networks found imported animation still a much cheaper and safer option than producing local animation. The newly established animation cable network also retreated from producing its own TV series after a couple of initial efforts ended up being unsuccessful and they fell back upon imported animation. Several animated features produced in the mid-1990s were poorly received as audiences and investors found most of them poor in story and production quality (Hwang 1998: 159-165). In fact, it turned out that the production quality Korean animation suppliers had been famous for did not translate into the quality of locally produced animation. The major local studios with established track records in offshore outsourcing, including Daiwon, Seyoung, Shinwon, Hanho, TakeOne and Dongyang, all participated in TV animation projects in this period (No 1995: 64-65). However, they had little incentive to put their best effort in local animation projects because throughout the 1990s they were enjoying a historic high period of the outsourcing business (see Figure 3 above). Local production,

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<sup>20</sup> For example, the United States succeed in making Korea open its local film distribution market through bilateral trade negotiations and, despite a fierce opposition by the local film industry, U.S. films were finally distributed directly by Hollywood majors in 1988 (Paquet 2005).

with little financial commitment required for those studios, largely worked as a risk-free filler to retain their staff between outsourcing projects or off-season.

The Asian financial crisis in 1997-1998 came as the final chapter of this phase. The outsourcing sector was greatly benefited by a strong dollar against the Korean won in the wake of the crisis, but it was only short-lived because it was offset by U.S. studios' shift from 2-D animation to 3-D computer animation and an increasing number of offshore projects leaving for lower-cost countries, such as China, Vietnam, and India. The investment boom in the audio-visual sector came to a close as many chaebol, such as Samsung and Daewoo, decided to withdraw from the film and entertainment sectors in the face of post-crisis pressure to restructure their overstretched, poorly-performing businesses (Paquet 2005). The crisis, however, accelerated the state's reorientation of its economic development strategies as well as its approach toward cultural industries. And passing through the crisis, as shown in the following section, a new generation of firms emerged with distinctive business strategies from their previous generations.

#### ***4.4 Path-breaking and Original Production: 2000 to the Present***

Every golden era has its end. By the late 1990s Korea had become one of the world's leading animation suppliers after its rapid export growth over a decade or so through the intensification of an outsourcing-based development model. Right at the turn of the century, however, the country's animation export began to decline

precipitously. Exports were more than cut in half in just four years from 2000, dropping from \$167 million to \$62 million in 2000-2004 (see Figure 3 above). This section examines how this rapid demise of offshore outsourcing in animation and the ensuing restructuring interacted with new developments in the global animation industry in the second wave of globalization, discussed in Chapter 3, leading to the rise of a new development path in the last decade as a response to globalization.

#### **4.4.1 The Collapse of Outsourcing Exports and Local Responses**

While many Korean suppliers started to question the sustainability of the offshore outsourcing model by the mid-1990s (Author's interview, Apr. 15, 2009), a decade-long phenomenal growth was sufficient to mask such a possibility at least for a while. There were a few scattered efforts among Korean animation studios to produce their own animation in the 1990s.<sup>21</sup> However, they did not lead to the rise of an alternative business model, given that outsourcing orders from foreign buyers provided the most stable and profitable business chances. Therefore, when the crisis finally came, it came really fast, and local suppliers did not have enough time to prepare for it. For example, one of the major Korean suppliers that had been working for Disney recorded its highest outsourcing exports in 2001 of 25 billion Korean won. In the ensuing years,

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<sup>21</sup> For instance, in a short-lived effort, Seoul Movie established their own creative development department in the early 1990s, channeling some of the profits made from outsourcing to its own projects (Author's interview, Feb. 12, 2009).

however, the company witnessed its exports plummeting every year by nearly 7 to 8 billion Korean won (Author's interview, Apr. 15, 2009).

Multiple factors led to this rapid decline of offshore outsourcing in Korea. First, at the global level, the end of the 1990s worldwide animation boom shrank the overall demand for animation, as the popularity of new entertainment media for kids, such as video gaming and the Internet, began to undermine the growth of animation markets. Second, foreign buyers shifted their supply chains to lower-cost countries, such as China, India, and Vietnam. This relocation of production was largely motivated by wage pressures in the existing supplier bases, such as Korea and Taiwan, as well as the entrance of emerging economies like China and India to global outsourcing. Finally, technological changes did not favor Korean outsourcing studios. For example, the turn of U.S. major studios to digital 3-D animation at the expense of traditional hand-drawn 2-D animation reduced the role of Korean suppliers, who had long been famous for the latter, in favor of rising powerhouses in computer animation, such as India.

Domestically, animation studios had to face a changing labor market. The rising living conditions and workers' expectations for higher wages and better working conditions crashed with the reality in animation that the wages of animators had been largely stagnant over the 1990s, and they still had to endure long, often overnight, working hours without union protection (Author's interview, Feb. 12, 2009). The label of a high-paid job that was once attached to the animator is no longer the case. More young

people preferred to have a job in gaming and other IT sectors, which was expanding in the early 2000s. This generally created the lack of a skilled workforce in animation. Meanwhile, competition among Korean studios got fiercer as outsourcing orders from foreign studios decreased after the end of a decade of expansion, which also prevented the buyers' fees from rising.

Changes in U.S.-oriented chains played a critical role in the speed of the export decline. The crisis arrived faster than expected because, as noted above, the majority of Korea's exports came from a handful of major suppliers, and those exporters had heavily relied on a few foreign, particularly U.S., buyers. For example, 90 percent of Sunwoo's revenue in 2002 came from its lucrative U.S. buyers, such as Disney, Fox and Nickelodeon (Author's interview, Apr. 15, 2009). Therefore, the departure of U.S. buyers, as did their arrival, made an immediate impact on Korean's export performance. The quick success brought by big buyers, since they were also quite mobile, played against Koreans this time, making them more vulnerable to the change in buyers' locational strategy.

Facing the sudden collapse of the existing business model, Korean outsourcing suppliers made different choices. One group gradually exited from the outsourcing business and tried functional upgrading toward higher value-added activities, such as producing original animation. Sunwoo gradually relocated its resources to original production and finally phased out its offshore outsourcing business altogether in 2007

(Author's interview, Apr. 15, 2009). Daiwon, another long-time major outsourcing supplier, turned to the licensing and marketing of animation and comic books. The government support for exporting original cultural products, which became apparent in the early 2000s, increased the incentive for such upgrading (see Section 6.4).

Meanwhile, other studios decided to stay in, yet they focused on product and process upgrading within the outsourcing chains. Despite deteriorating market conditions, such as diminishing demand, they remained committed to outsourcing exports. Their survival strategy is to retain relatively high-value projects by highlighting their long track records in timely delivery of high-quality outputs for high-volume projects. For season-long TV primetime shows, such as the Fox Network's *The Simpsons* and *King of the Hill*, the budget is generous enough for the supplier to keep its business afloat and retain its core experienced staff. Also, quality-conscious foreign studios making such shows often find it difficult for suppliers in lower-cost countries to reliably handle such big projects, at least not yet (Author's interview, Apr. 23, 2009).

The restructuring story played out differently in Japanese-oriented chains. Restructuring appeared to be less dramatic than in U.S. chains. Hand-drawn, 2-D animation has remained the mainstay of the Japanese animation market (Author's interview, Mar. 26, 2009). Unlike a complete transition to 3-D computer animation, the digitalization of some 2-D tasks, like coloring and inking, has not substantially changed the geography of the chains. Rather, in Japanese chains, regional supply chains linking

Korea and Japan have extended further. As Korean suppliers moved up to higher value-added tasks in main production, such as layouts and key animation, since the late 1990s,<sup>22</sup> they also began to relegate more labor-intensive tasks, such as in-between, to foreign subcontractors or their subsidiaries, mostly in China, indicating the extension of near-shore supply chains (Author's interview, Feb. 25, 2009). Finally, a relatively long-term, stable and often personalized buyer-supplier relationship, which some characterized as "family-like" (Author's interviews, Feb. 25 and Mar. 10, 2009), appeared to attenuate some of the adverse effects of market changes.<sup>23</sup>

#### **4.4.2 Economic Crisis, New Entrants and the Original Production Model**

This decline of outsourcing-based animation exports coincided with the rise of "original production" as a new mode of development. Revenue from domestic original animation increased from 75 billion to 107 billion Korean won in 2004-2006 and reached 137 billion Korean won in 2007, as shown in Table 11. The annual number of newly produced original TV animation shows increased from 17 to 31 series in 2003-2006.

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<sup>22</sup> This has been partly driven by the aging and short supply of skilled animators in Japan, as younger generations are reluctant to join the industry which is known for its difficult working conditions (JETRO Japanese Economy Division 2005). This even generated a flow of migrant animators from Korea to work for Japanese animation studios in recent years (Author's interview, Mar. 10, 2009).

<sup>23</sup> Of course, exiting was another option, but it is hard to estimate the number of the studios that have closed down since the late 1990s. Among major OEM exporters, those no longer in operation include Seyoung, Hanshin, Shinhan and Ko Ko Entertainment.



Although imported animation is still the majority on national TV networks,<sup>24</sup> the share of local animation in the total animation broadcasting hours of all four nationwide TV networks also rose from 24 per cent in 2005 to 32 per cent in 2006 during the period when the total hours grew by 17 per cent (MCST/KOCCA 2008: 1, 40). Some of these local animations, such as *Pororo, the Little Penguin* (2003), were successful in both domestic and export markets.

**Table 11: Original and contract animation production in Korea, selected years**

<b>Export-based</b> (USD thousand)	1999	2002	<b>Industry revenue-based</b> (KRW million)	2006	2007
<b>Total Export</b>	160,811 (100.0%)	83,870 (100.0%)	<b>Total Industry Revenue</b>	227,173 (100.0%)	289,368 (100.0%)
<b>Original Production</b>	4,626 (2.9%)	8,173 (9.7%)	<b>Original Production</b>	107,292 (47.2%)	137,322 (47.5%)
<b>Outsourcing</b>	156,185 (97.1%)	74,852 (89.2%)	<b>Contract-based</b>	107,784 (47.4%)	135,025 (46.7%)
Sub-contract	138,607 (86.2%)	74,504 (88.8%)	<b>Distribution/marketing</b>	4,402 (1.9%)	7,517 (2.6%)
Sub-subcontract	17,578 (10.9%)	348 (0.4%)	<b>Other</b>	7,795 (3.4%)	9,504 (3.3%)
<b>Other</b>	-	276 (0.3%)			

Source: 1999 - *Statistics of Cultural Industries 2000*, cited in Kang and Ch'oe (2001: 7); 2002- 2004 KOCCA (2004: 18-19); 2006 and 2007 – KOCCA (2009a: 27)

Various local studios are involved in original production. The number of studios in a given year that produced their own TV animation for the first time either independently or jointly increased from 9 to 15 studios in 2003-2006. And 13 out of those

<sup>24</sup> In 2006, imported animation accounted for 68 per cent of the total animation broadcasting hours as compared to new domestic animation series (18 per cent) and rerun domestic animation series (14 per cent) (MCT 2007: 6).

15 studios have produced more than two TV series by 2006 (MCT 2007: 32-34). This indicates that more studios began to work on their second or third original animations to build their own library, which is cited as one of the key success factors in export markets (Author's interview, Feb. 23, 2009).

This rise of original TV animation production has been driven by newly established small and medium-size local studios. These third-generation firms are distinguished from the first and second generations in that they have either no or very little experience in offshore outsourcing because many of them were set up in the late 1990s and the 2000s when the business model was in decline. According to a survey in 2006, 70 per cent of the animation firms that responded were established in the 2000s, while 29 per cent were founded in the 1990s and only 1.2 per cent prior to 1990 (KOCCA 2008: 36). Out of 115 KAPA member studios as of February 2009, 72 studios joined the membership since 2001, compared to 43 studios that joined before 2001.<sup>25</sup>

Along with former outsourcing studios that turned to an original production model, these young studios have become a driving force of rising local animation production. Iconix is one successful example of this youngest group. Since its spin-off in

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<sup>25</sup> The figures are based on the author's own comparison of the KAPA's member directories of 2001 and 2009 provided by the association. The total membership for each year was 96 and 115 respectively. The fact that the increase of new members (+72) outpaced that of the total membership (+19) suggests that many studios have left the KAPA since 2001, including close-downs. This is not a direct measure because some studios might not join the KAPA immediately after they were established.

2001 from a chaebol-owned advertising agency as part of a post-crisis restructuring effort, the studio successfully produced several popular TV animations, including *Pororo, the Little Penguin* (2003), which has made the 3-D animation studio one of the leading animation producers in Korea. Most of its animations are created, designed and produced by the studio and from the beginning targeted both domestic and foreign markets (Author's interview, Feb. 23, 2009).

The turn to original production by many Korean studios has provided a chance to uncover many weaknesses of the domestic animation industry. First, domestic financing remains insufficient for animation projects. A small domestic market, increasing competition with other sectors like online gaming, the high risk and uncertainty inherent in filmmaking, and the lack of a proven business model in animation-making has kept financiers' confidence low in investing in animation projects.

Second, many local studios have realized that nurturing creativity is hard and takes a long time. While many new college-educated animators have joined the industry since the mid-1990s,<sup>26</sup> local talent in creativity-intensive tasks, such as story-writing and character design, are still largely lacking. Further, this skill shortage has not been mitigated by the fact that the industry has produced over several decades a large number of animators trained through outsourcing projects, many of which were world-

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<sup>26</sup> As of 2008, there were 240 animation-related college departments (139 among them in 4-year colleges). Each year more than 5,000 college students graduate from these programs (KOCCA 2009a: 314-317).

class commercial animations. Rather, the main limitation is because the workforce structure of the outsourcing segment has been heavily skewed into production tasks, sidelining skill development outside the main production domains.

Finally, distribution and marketing are also big missing pieces. Despite the installation of the TV quota system for local animation (see below), TV networks in Korea remain reluctant to embrace animation programming because they have lost viewers to cable networks that are not subject to the quota system.<sup>27</sup> Many Korean studios have found overseas marketing critical, albeit demanding, for the success of their own animation as they began to bring their products to international markets.

The following two sections examine how the government and the local industry in Korea have responded to these challenges to build robust local value chains in the face of the changing landscape of the global animation industry.

#### **4.4.3 Building Robust Local Value Chains: The State's Policy**

What distinguishes this phase from the previous one is that the Korean state took concrete actions to clear the obstacles in rebuilding local production networks. The detailed discussion of what motivated the state's actions since the mid-1990s is

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<sup>27</sup> In a consumer survey, 69 per cent of the respondents picked cable networks as the major source of their animation viewing, as opposed to 20 per cent of them who chose broadcasting networks (KOCCA 2009a: 234-235). As of the end of 2009, there were three animation cable channels (Tooniverse, Champ, and Daiwon). In addition, two children's entertainment cable channels run animation for some of their program blocks.

presented in Chapter 6. This section outlines the state's policy measures that aimed at promoting cultural industries and local animation production in particular.

While the Korean government's interest in cultural industries as a tool for economic growth emerged as early as in the mid-1990s (see Section 4.3.4), a more systemic effort to support these industries came after the economic crisis later in the decade. Following the policy of the Kim Young-sam administration (1993-1998) to support a local film industry (see Section 6.3.1), a new Kim Dae-jung administration (1998-2003) coming in the midst of the crisis expanded government support to a wider set of cultural industries and provided a series of elaborated policy measures. In 1999, the government enacted the Basic Law for Cultural Industry Promotion, which mandates the Minister of Culture and Tourism (MCT) to formulate a long-term industry promotion plan every five year to set the ministry's policy goals and specify supporting measures for the sector.<sup>28</sup> Based in the legislation, the Cultural Industry Promotion Fund (CIPF) was established in 1999 to financially back government support programs (Pak and Nam 2003: 3-5). Finally, as the focal agency to execute those programs, the Korean Culture and Content Agency (KOCCA) was founded in 2001. In this way, in the three years after 1999, legislative, policy, financial, and organizational foundations were built to support cultural industries at the central government level.

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<sup>28</sup> The MCT has been renamed the Ministry of Culture, Sports and Tourism (MCST) since 2008.

As for animation, the state's policy focused on addressing the challenges noted above in building robust local value chains that can produce original animation for both domestic and global markets. Animation became the largest beneficiary of CIPF's loan program; in 1999-2003, 136 billion won went to animation out of the total of 628 billion won loaned (Pak and Nam 2003: 8). The government also invested in the special public-private funds targeted at cultural sectors. Between 2002 and 2005, 43 billion won was financed in 31 different animation projects from these funds, 30 percent of the total funds that were authorized to invest in the animation sector (MCST/KOCCA 2008: 7).

As for developing creative capabilities, the KOCCA selects annually approximately 20 pilot animation projects that are considered promising and supports part of their production costs (up to 100 million won per project) to help locally creative projects bear fruit. KOCCA also runs professional programs to train promising specialists in creative development, pre-production, and overseas marketing (MCST/KOCCA 2008: 20-28).

On the distribution and marketing fronts, the most significant development has been the installation of a TV quota system for local animation. Under the system, effective since July 2005, three national TV networks (KBS, MBC, and SBS) and EBS, a publicly funded education channel, are required to allocate at least one per cent and 0.3 per cent respectively of their total broadcasting hours to newly produced indigenous animation (MCT 2007). This system aims to expand the chance for local TV animation to

find a wider audience in a situation where the majority of broadcasting hours for animation is still filled with imported animation, particularly Japanese shows. To facilitate overseas marketing, the KOCCA has established overseas offices since 2001 in Japan, China, the United States (Los Angeles), and Europe (London). It also sets up a national exhibition pavilion in major international media markets to increase the exposure of Korean cultural content to global buyers (MCST/KOCCA 2008: 30-31). Given the longstanding non-intervention of the Korean state in the animation industry other than to suppress local production (see Section 6.2), this development indicates a significant change in the relation between the state and the industry, as examined in detail in Chapter 6.

#### **4.4.4 International Coproduction as an Upgrading Pathway**

As the industry and the state shifted to a new path based on original production, the way the Korean animation industry is linked to global production networks has changed. First, as Korean studios are trying to create and export their own products, their main buyers have changed from foreign producers expecting the semi-completed contracted work (e.g., production studios, the production unit of a TV network) to foreign buyers who want to buy a finished work (e.g., importers, distributors, the acquisition unit of a TV network). A Korean executive whose studio has turned from offshore outsourcing to original production confessed that as his firm turned in this

direction, it found that its old client network for outsourcing would be of little help to sell its own products (Author's interview, Apr. 15, 2009). Building a relationship with this new set of buyers is cited as one of the key challenges to get their products distributed in foreign markets.

As a solution to address various challenges involved in accessing global markets, including nurturing a new client network, Korean studios take notice of international coproduction, which has recently risen in global animation production (see Section 3.4.2). Since the early 2000s, the annual number of internationally coproduced animation projects by one or more Korean partners has increased to eleven projects in 2009 from only three in 2003. Cumulatively, 43 international coproduction projects were newly arranged by 30 different local studios. As shown in Table 12, while all three projects in 2003 were with Japanese firms, coproduction partners have since diversified so that in 2009 Korean studios came into eleven coproduction arrangements with twelve different partners from seven different countries (four European and three Asian) (KOCCA 2009b: 11-13).



**Table 12: Distribution of international coproduction partners by country, 2003-2009**

Year	Total Projects	Japan	Europe	China	Canada	United States	Other Asian countries
2003	3	4	-	-	-	-	-
2004	5	3	1	1	1	1	-
2005	6	7	1	1	1	-	-
2006	7	2	3	2	-	1	-
2007	6	3	1	2	1	1	-
2008	5	2	4	-	-	2	1
2009	11	2	5	2	3	-	1
Total	43	23	15	8	6	5	2

Note: The number of foreign partners is counted by project; therefore, if one partner joins in three different coproduction projects in a given year, it is counted as three. If two different partners from the same country participated in the same coproduction project, each partner is separately counted.

Source: compiled from KOCCA (2009b)

Korean producers are attracted to international coproduction for several reasons.

First, oversea partners can finance animation projects that cannot draw enough investment from local sources. Therefore, by being able to tap into bigger financial resources, Korean studios can envision a larger project that would not be feasible otherwise with only local investment. Second, foreign partners can complement the skill domains at which Korean counterparts are less competitive or capable, such as pre-production, global marketing and merchandizing. Coproduction with prominent distributors or TV networks, for example, is considered an easier and surer way to bring the animation to major foreign markets than waiting for potential buyers approaching an international media market. Third, as more animation, in particular TV animation, is produced through international coproduction, taking part in coproduction is considered

a way to secure production orders that otherwise would have gone to other firms or countries.

Meanwhile, Korea can be attractive to overseas partners primarily for the availability of an experienced workforce in main production and increasingly cost-competitive creative staff compared to those in advanced economies (Raugust 2004). The Korean state's active support of international coproduction is also an incentive for partnership with Korean studios (Author's interviews, Feb. 13 and Mar. 3, 2009A). An international coproduction treaty between Korea and Canada has been effective since 1995 for TV programs. Korea's film coproduction agreement with New Zealand (2008) covers animation for theatrical release (KOCCA 2009b: 226-231).<sup>29</sup>

One notable aspect of Korea's venture into international coproduction is the geography of the partnership. As shown in Table 12, Japan has been the leading partner country since 2003, followed by European countries (France, Germany, Spain, and Italy) and China. In North America, Canada is Korea's leading partner in coproduction, ahead of the United States. The partnership with U.S. firms has been limited despite their long involvement in Korea throughout the outsourcing years and the status of the United States as the world's largest animation market.

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<sup>29</sup> Korea has also had a coproduction agreement with France since 2008, but animation is not included to the film category covered by the bilateral agreement.

There are several reasons behind this geographical distribution of partnerships. First, a relatively smaller size of Japanese projects, different from the case of outsourcing, helps Korean studios enter into coproduction because smaller projects mean that with the same size of investment the studios could get a bigger share in profit distribution (Author's interview, Feb. 13, 2009). Second, the prominence of European, particularly French, firms and Canadian firms as coproduction partners reflect that firms from these countries, which have a strong institutional and policy support for international coproduction, are active players in international coproduction markets (Raugust 2004: 169-170).<sup>30</sup> Finally, the limited presence of American partners is attributable to the fact that U.S. projects often are too big for studios with limited financial resource like many Korean studios to participate in. At the same time, American producers tend to have little incentive to share their rights not only because the primary market for their products is their domestic market on which they know better than anyone else but also because they tend to be able to finance the project only with domestic sources of investment (Raugust 2004).<sup>31</sup> In this way, international coproduction has changed the

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<sup>30</sup> An executive at a major Indian animation studio told me that everyone wants to have a coproduction project with French and Canadian firms because they can bring to the table considerable support from their government or public institution, such as the National Center of Cinematography and the Moving Image (CNC) of France or Telefilm Canada (Author's interview, Jun. 17, 2009A).

<sup>31</sup> An American animation producer handbook points out: "Major studios and networks can fully fund some of their productions each year, whether developed in-house or acquired" (Raugust 2004: 158). As long as they are able to fully fund the project, they want to keep all the property rights to the property by doing so and do not feel compelling to enter into any coproduction.

way Korean studios are linked to global markets as well as the geography of their value chains.

This latest stage, in short, has been a path-breaking for the Korean animation industry. The outsourcing-based export model that lasted for more than three decades has been replaced by a new mode of development that combines original production and international coproduction for upgrading. The domestic market has expanded, albeit slowly and largely in TV animation, while a sharp decline of offshore outsourcing exports has been partially made up with the growth in exports of original animation. Integration to global production networks has not been abandoned but renewed with a comprehensive strategy of tightening the linkages between domestic, regional and global cultural chains.

#### **4.5 Conclusions**

This chapter has examined the evolution of the Korean animation industry and its linkage to global production networks in the context of the changing structure of global cultural value chains outlined in the previous chapter. This final section discusses how those findings speak to the theories on the structure of global cultural industries.

First, this chapter found a strong influence of imported animation in Korea throughout the period in question. Most imports have come from the United States and Japan, and their dominance remains strong after the revitalization of local animation

production in the last decade. This uneven flow of animation trade in Korea to some extent supports the argument of cultural imperialism. The persisting dominance of imported animation and its crippling effect on domestic production indicates the process of cultural and industrial dependency at play (particularly in the first and second phases) and the difficulty of building up local capabilities to produce cultural content for local audiences, let alone global markets.<sup>32</sup>

This study has shown, however, that unlike a portrayal by cultural imperialism of peripheral actors as passive recipients and consumers of global media, local actors are not completely passive, but instead deeply involved in this process. They are engaged in the production and circulation of content at different positions in the animation value chains. When return immigrants brought outsourcing contracts to Korea, local

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<sup>32</sup> In particular, the prominence of Japanese animation in Korea (and other East Asian countries) may suggest, on the one hand, media imperialism playing at the regional level, or “regional cultural imperialism,” highlighting the unevenness of cultural flows within regions or between developing countries. This phenomenon, on the other hand, can be understood as the exercise of “soft power,” or power to *persuade* as opposed to power to *coerce* (Nye 1990), by Japan to neighboring Asian countries. In fact, the interest of Japanese policymakers in that notion and the growing influence of Japanese cultural products including anime has grown since the early 2000s, partly sparked by American journalist Douglas McGray’s *Foreign Policy* article that suggests the coolness of Japanese cultural goods as a new power source for the recession-ridden country (McGray 2002). This interest led to a series of policy efforts to promote cultural industries under the national brand of *Cool Japan*, although the government’s initial interest in cultural industries dated back to the mid-1990s (Leheny 2006). It is unclear, however, how much the popularity of Japanese cultural products contributes to improve Japan’s political position in the region. David Leheny, for example, points out that the notion of soft power and *Cool Japan* points more to the audience inside Japan than to people in neighboring countries: “soft power has become a way for observers to cope emotionally and intellectually with national decline [in the case of Japan, a decade-long economic slump] by believing that virtues they in their own nation are validated overseas” (Leheny 2006: 212). In fact, many cultural producers in Japan were indifferent to foreign audiences, let alone making separate products for foreign markets (McGray 2002: 48).

entrepreneurs were fiercely competing and upgrading to become key suppliers for globally popular animation projects. When Korean TV networks decided to rely on imported animation, local actors often played significant, albeit often uncredited, roles in the operation and expansion of global cultural production networks.

Second, this chapter has demonstrated a strong presence of the uneven international division of animation production throughout the entire period. As NICL argues, for much of the period, the division of labor clearly separated Western (and Japanese) lead firms focusing on creative development, finance, marketing and distribution from Korean suppliers working on relatively low value-added production tasks. This division between pre/post-production and main production has presented the key challenge for upgrading. While the rise of international coproduction shows the possibility to redraw the dividing line between lead firms and Korean suppliers, power and capability differentials are still critical for Korean firms to capture more gains from such a partnership.

At the same time, this chapter shows that the depiction of global cultural industries by the NICL model is too static to fully explain the more nuanced outcomes of globalized production systems in cultural industries. As a GVC-based approach suggests, the international division of labor in the Korean animation case has been neither particularly new nor static; rather, the division of labor gradually expanded since the late 1960s and changed over time, indicating the dynamism of offshore

outsourcing. While Western and Japanese lead firms have continued to maintain their power over Korean suppliers, upgrading within the uneven relationship, such as a movement to bigger-budget, larger-volume projects, has major consequences, as exemplified by the explosive growth of Korea's animation exports during the 1990s.

Furthermore, the international division of cultural labor is not governed in a unitary way. Different governance structures between U.S. and Japanese outsourcing chains have led to more nuanced upgrading options and outcomes than what NICL would suggest. A quick build-up of large-scale production in the U.S. chains (yet with their equally quick relocation later) exhibits a stark contrast to much slower upgrading in smaller-scale projects for Japanese buyers. This upgrading picture has become more complicated as some of the outsourcing chains retreated from Korea and original production and international coproduction began to play a significant role in the Korean firms' upgrading efforts. The rise of coproduction within East Asia or with non-U.S. firms, despite the lingering question of power inequality, shows that the NICL strategy is not necessarily exclusive to Hollywood majors, but rather can become a tool for non-Hollywood firms to deploy against the majors by pooling together their creative, financial and distribution resources. In this way, U.S. buyers, Japanese buyers and international coproduction partners exhibit different forms of NICL in terms of governances, and therefore, their impact on the upgrading dynamics of Korean animation producers varies, as will be examined in more detail in the next chapter.

Finally, the decentralization of cultural production and the emergence of regional cultural networks have played out in the case of Korean animation in a couple of different ways. The rise of Korea's original animation production for exports, particularly in the latest phase, provides evidence for the growth of animation production in the periphery and the decentralization of animation production. However, at the same time, what Korean original animation has to compete against in the domestic market is largely imported Japanese animation, which has been dominating the Korean market for several decades. In fact, the growth of the Japanese animation industry has been based not only on domestic and culturally-proximate regional audiences as its consumers, but also Korean (and other East Asian) producers as its suppliers.

The answer to the question of whether such regional value chains are more beneficial than global chains appears to be more complicated. As exemplified by the Korean studios' relationship with Japanese buyers, regional cultural chains (or near-shoring) appear to pose different types of opportunities and challenges than global chains (or far-shoring) do. Cultural and geographical proximity may help. The limited size of regional market markets, albeit still bigger than domestic markets, can reduce entry barriers and facilitate the participation of smaller firms, but this also can induce the continuous fragmentation of suppliers, therefore ultimately limiting the pace and scale of upgrading.



The following chapter revisits these governance and upgrading questions in a greater detail from a GVC perspective by zeroing in three different types of animation value chains in Korea.

## **5. THREE WORLDS OF UPGRADING IN KOREA: U.S. AND JAPANESE OUTSOURCING CHAINS AND INTERNATIONAL COPRODUCTION CHAINS**

### ***5.1 Introduction***

This chapter attempts to answer the following questions: (a) To what extent American and Japanese animation outsourcing networks are similar or different from each other? (b) How much does the difference affect upgrading outcomes of suppliers for each market? (c) How does international coproduction change the dynamic of global-local linkages, as compared to U.S. and Japanese outsourcing chains?

The discussion in this chapter is centered on the TV animation chains in which Korean animation studios have been participating either as outsourcing suppliers or coproduction partners. As noted earlier, a substantial portion of TV animation production has been done through offshore outsourcing, and Korea has been a big part of it for a long period. The analysis of U.S. and Japanese outsourcing chains here generally centers on the second phase of the Korean animation industry development (1986-1999), in which the key features of each chain were full-blown in a distinctive fashion, although some of the features had become prevalent earlier than others as the chains continued to evolve. The analysis of international production chains centers on the third and latest phase (2000-the present). Note that because international

coproduction is a recent phenomenon, it is too early to make a conclusive assessment of the effect of the chains on upgrading of Korean studios.

The presence of these three distinctive types of chains relates to different waves of globalization. The outsourcing chains of U.S. and Japanese firms were formed over the first wave of globalization (the 1960s-the 1980s) in animation although the heyday of these chains in Korea extended into the second phase of globalization (the 1990s-the present). The international coproduction chains are the product of the second wave of globalization. While international coproduction has been present in the film industry over the post-war period, until recently it centered around European countries, such as Britain and France, and it was not frequent in animation production (Miller et al. 2005; Hubka 2002).<sup>1</sup> The participation of non-Western firms and regional coproduction in East Asia, therefore, are relatively recent phenomena.

## ***5.2 U.S. and Japanese Animation Outsourcing Chains***

This section compares two outsourcing chains oriented respectively to U.S. and Japanese animation markets. The two chains are compared in four main dimensions as follow:

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<sup>1</sup> In 1978-1995, Britain, France, the United States, and Germany accounted for 56 per cent of TV/film coproduction worldwide. Animation represented only seven per cent of the total coproduction. Drama and documentary were the genres where international coproduction was the most widely used. In East Asia, international coproduction remained low key as its share of the total feature production in 1998 was three per cent and seven per cent in Japan and China respectively, with the exception of Hong Kong, where 20 out of 92 films were produced through international production (Miller et al. 2005: 179-180).

- 1) Division of labor: a) how production is divided between the contracting studio and the supplier; b) who and how controls the outsourced production process;
- 2) Firm characteristics: a) who the major buyers are; b) who the key suppliers are for each chains;
- 3) Contract characteristics: a) the type and budget size of outsourced orders; b) formality of contract; c) the duration of buyer-supplier relation;
- 4) Structure of outsourcing network: a) the openness of supplier network; b) governance structure

The major findings are summarized in Table 13. Each of these aspects is discussed in detail within this chapter.

**Table 13: U.S. and Japanese animation outsourcing chains in Korea**

	U.S.-oriented chains	Japan-oriented chains
Production scope	Full steps of main production	Part of main production
Process control	Standardized pre-production instruction material	Flexible, subject-to-change work orders with rough pre-production material
Buyer	Animation studios and TV & cable networks	Mostly contracted studios (first or second-tier suppliers)
Supplier	Smaller in number but bigger in size	A greater number of small-sized studios
Order type and size	Big, annual orders	Small, patched orders
Product type*	Full animation (18,000-20,000 cells)	Limited animation (3,000-4,000 cells)
Budget and production costs*	\$400,000	\$80,000
Formality of contract	Formal; mostly documented	Informal; mostly verbal
Contract duration	Short-term (annual basis)	Long-term
Network openness	Open, competitive	Closed
Governance structure	Captive to Modular	Captive to Relational

\* Estimated averages for a 30-min TV animation episode<sup>2</sup>

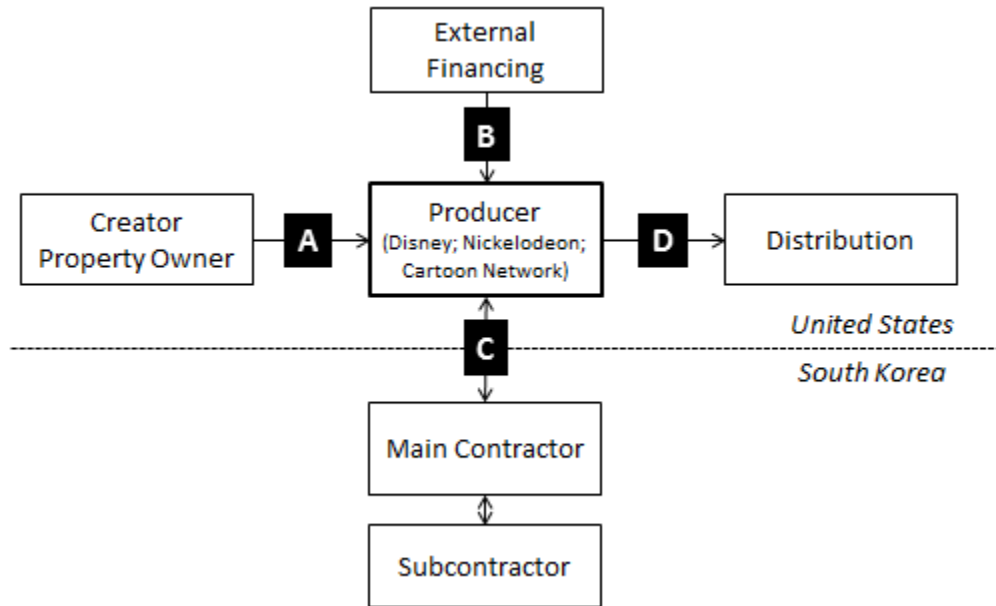
### 5.2.1 Chain Structure

The process of animation production in general, as illustrated above (Section 3.2.2), is broken down into five steps – i.e., conceptualization, pre-production, main production, post-production, and distribution and marketing. Historically, offshore outsourcing started from the simplest labor-intensive tasks, such as inking, coloring and painting, and gradually expanded into more complicated tasks, such as in-between, animation, and background drawing, as the supplier’s capabilities improved and the

<sup>2</sup> The assessment is based on Korean material, but largely confirmed by manuals for animation producers in Hollywood: production budget for TV (\$500,000-800,000 for 30 min prime time and 3D shows; \$200,000-\$500,000 for children’s slot show) and 18,000 to 20,000 cels for TV animation by B standard (Milic and McConville 2006: 36-37).

buyer's confidence increased. It was only recently that Korean studios were involved in the tasks beyond main production, such as pre-production. Despite this general trend, U.S. and Japanese outsourcing chains exhibit a great difference in terms of the way the chains are structured and the Korean firms are integrated into them.

In the U.S. animation production system, usually creators or independent producers pitch a show idea to potential buyers, such as cable and satellite networks (e.g., Nickelodeon, Cartoon Network) ("A" in Figure 4). Once the network picks up the show concept, whether it is based on an original idea or an existing property (e.g., comic books, novel, or video games), the concept is further elaborated for an agreed period of time to see if it can be developed into full production. If the network decides to go forward, it may purchase the property outright, which would give the buyer greater control over the property rights for the show.



**Figure 4: U.S. animation outsourcing chains**

As the buyer gives a green light to the full production of the project, it prepares to fund the project, either using internal financial sources or seeking external sources, from bank loans to co-producers and private equity funds (“B”). As the project moves to pre-production, the creator may be brought into the network to co-develop with its internal creative teams.<sup>3</sup> During the extensive period of pre-production, for about 20 weeks (including scripting) for 2-D TV animation, the teams produce a set of pre-production materials, including the storyboard, the main model pack,<sup>4</sup> color styling, pre-recorded voice tracks, and exposure sheets (or “x-sheets”, directing and timing guides).

<sup>3</sup> This acquisition and development process is similar to the one in Hollywood film production. See Figure B-3 in Appendices for the latter.

<sup>4</sup> The model pack contains illustrations of the characters, backgrounds, props and special effects.

The complete pre-production materials are then shipped to the overseas studio (“C”) for main production. In the U.S. chain, usually one main contractor is hired for producing the entire series of episodes (Milic and McConville 2006: 91). Even when the work is to be split, the number of the main contractors rarely goes beyond two (Author’s interview, Apr. 23, 2009). When the work exceeds the contractor’s capacity, it may be outsourced to other studios, usually smaller but mostly Korean. The entire responsibility for main production, though, still lies with the main supplier. In a TV series, production proceeds by episode, with one overlapped with the next. Once an episode is done, it is shipped back to the home studio for post-production before being aired on TV (“D”).

In general, the U.S. chains are characterized by a clearly defined division of labor between the home studio and the overseas studio, and a relatively compact layer of outsourcing that is similar to the contract manufacturing model of electronics manufacturing (Boy 2002; Sturgeon 2002).

Meanwhile, in the Japanese system of animation production, TV stations (usually terrestrial<sup>5</sup>) for a long time have been playing a role as the key sponsor for TV animation. As the production costs escalated and merchandizing, such as toys, became a key part of the business model for TV animation (Yamaguchi 2004), other types of firms joined into

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<sup>5</sup> Terrestrial television refers to a mode of television broadcasting which does not involve satellite transmission or cables. In the United States, it is referred to as broadcast television or over-the-air television.



animation production as sponsors.<sup>6</sup> As a result, the “production committee” model has become prominent, in which all related parties, including TV stations, property owners (e.g., comic book publishers), advertising agencies, and other sponsors (e.g., toy-makers; game publishers) form a joint partnership for the production of a specific animation project and share contributions as well as revenues from the project (“J” in Figure 5) (Japan Fair Trade Commission 2009; JETRO Japanese Economy Division 2005).<sup>7</sup>

The production committee places an order with a production studio, which becomes the prime contractor for producing the animation (“K”).<sup>8</sup> The animation production studio can be part of the committee. This first-tier supplier then contracts out some of the work to smaller, second-tier suppliers, with which it maintains a close, long-term relationship at home (“L”). While some first-tier suppliers now outsource directly to Korea, these second-tier suppliers actually farmed out most of Japanese TV animation

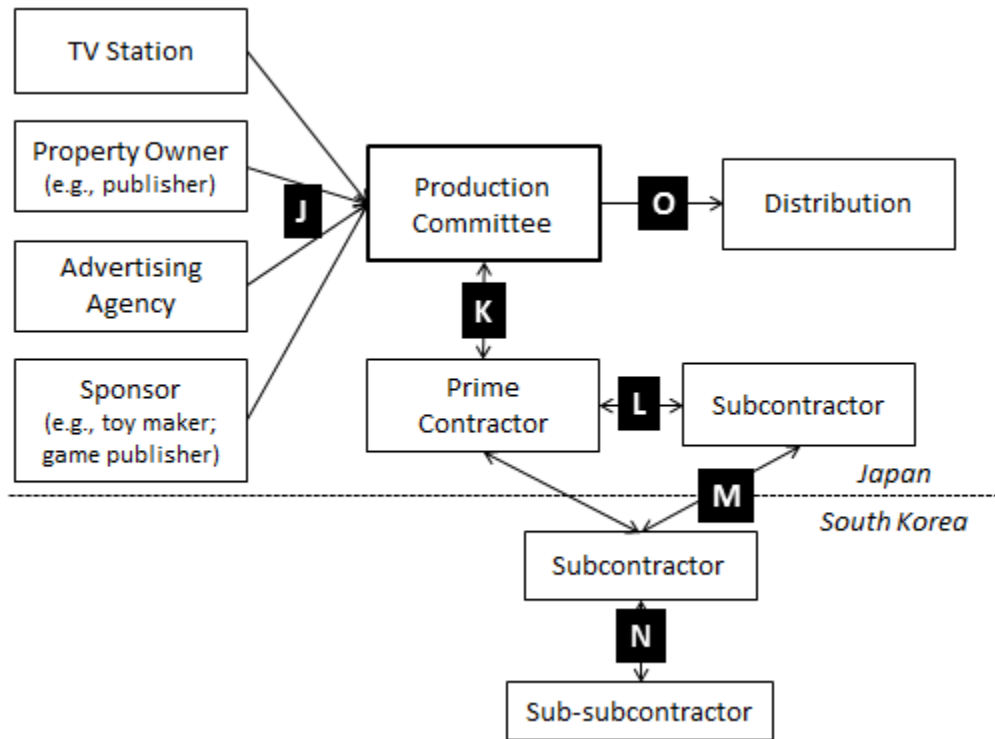
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<sup>6</sup> Despite the well-documented intervening role of the Japanese state in industrial development (Johnson 1982), the government had long been stayed away from promoting the animation industry until the early 2000s, when the Japanese government initiated a campaign to promote the country’s cultural and creative industries under the brand of “Cool Japan ” (see fn. 32 in Chapter 4). Japanese animators and studios generally did not prefer, if not opposed, the involvement of the state in the industry, mainly concerning its negative effect on the freedom of expression. They remain ambivalent towards the government support policy (Author’s interview, Mar. 26, 2009).

<sup>7</sup> The publisher is usually one of the key parties of the production committee because much of Japanese TV animation is based on Japanese comic books (called “manga”). The roles of the advertising agency are to buy a programming block from the TV station on which the animation is to be aired and sell commercial times for the block to advertisers. It also plays a mediator or clearing-house role in managing the collection and distribution of revenue to associated parties.

<sup>8</sup> About 20 major studios in Japan assume the prime contractor (or first-tier supplier) role, including Toei Animation, Nippon Animation, Studio Pierrot, Production I.G., Tezuka Production, Sunrise, Gonzo, and TMS Entertainment (Nikkei B.P. Sha Gijutsu Kenkubu 1999).

work to Korean studios (“M”). At least two or more Korean studios are selected as a group (dubbed “ban” in Korea), and the work is split among those studios by episode or by tasks within the same episode.



**Figure 5: Japanese animation outsourcing chains**

Some Korean studios contract out some of their portions, such as labor-intensive ones like in-betweens, to other studios in Korea or their affiliates abroad, say, in China (“N”). The work done is shipped back along the chains to the Japanese contractor on a daily basis by air and combined with the work done by other domestic studios before eventually being delivered to the prime contractor and being aired on TV (“O”).

Overall, the Japanese animation outsourcing model is characterized by multi-tiered, inter-firm hierarchy consisting of both domestic and foreign suppliers, and the division of labor among these suppliers are fragmented and flexible, as discussed next.

### **5.2.2 Division of Labor**

While the tasks contracted out vary by an individual project as well as by the supplier and the buyer involved, the scope of the work outsourced to Korea generally differs between U.S. and Japanese chains.

In the U.S.-oriented chains, a relatively clearly defined division of labor has been developed. Pre- and post-production were done in the U.S. studio (by the buyer itself or by outside contractors), while main production – usually the entire process from layouts to camera compositing – was conducted by the Korean supplier. This division was historically set up around the early 1980s and continued to work in that way (see Section 3.3).

This clear division of labor was facilitated by a couple of additional arrangements. First, the package of pre-production materials was provided in a detailed way by the contracting studio to its Korean supplier. It contained a complete set of production instructions so that the supplier can carry out main production without constantly consulting the home studio. While communication between the two parties throughout main production was not uncommon, detailed pre-production materials

mitigated much of the communication need; when there was, it was generally intended for clarification of directions in the package rather than adding new instructions. In turn, the long-distance sourcing involved in the U.S.-Korea chains was likely to press American producers to prepare the materials in as complete a form as possible to keep transaction and communication costs to a minimum.<sup>9</sup> In addition, according to my informants, the form of pre-production packages was quite standardized across American buyers (Author's interviews, Feb. 12 and Apr. 15, 2009). Thus, anyone who has worked for one U.S. project can plug into other projects, even when it is for a different American studio. This was likely to help create a large pool of animators who were familiar with U.S.-destined projects in general.

Second, since the early days of offshore outsourcing, U.S. studios have stationed their own staff in the Korean studios under contract throughout the project. The roles of those "overseas supervisors" were largely two-fold: technical support and quality control. They provided technical knowledge for the tasks Korean animators were not good at and translated the cultural cues embedded in the scripts that Koreans could not understand. They also worked as "the first filter for delivery materials, approving or

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<sup>9</sup> An animation producer handbook contains the following guidelines for preparing overseas production instructions: "This [the outsourcing of main production] is one of the reasons why the pre-production needs to be foolproof and why the greatest of care must be taken when securing the materials before shipping them. It's better to check everything ten times than to send wrong or misleading information" (Milic and McConville 2006: 51).

disapproving them” (Milic and McConville 2006: 92).<sup>10</sup> In short, well-prepared production instructions and the presence of overseas supervisors helped the operation of clearly defined division of labor in this far-shore supply network.

In contrast, in the Japan-oriented chains the division of labor is less clear and situational and the scope of the main production work done by outsourcing studios was limited. Unlike U.S.-oriented chains, where usually one (or two) suppliers take care of the entire series, Japanese outsourcing work tended to be split by the Japanese prime contractor and assigned to a group of both Japanese and Korean subcontracting studios. A division of labor between these subcontractors was more flexible. Who does what varied by project, and was adjusted depending on the work load and capacity of each studio. Many Korean suppliers assumed a limited part of main production functions, such as in-betweens and coloring, and relatively advanced tasks, such as layouts and key animation, were initially done only by Japanese studios (Masuda 2007: 205-207). By the early 1990s, a handful of relatively big Korean suppliers were able to start key

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<sup>10</sup> The need for overseas supervisors and other staff, however, has significantly declined, particularly for technical support, as Korean suppliers acquired and performed advanced skills, the costs of stationing supervisors in foreign countries became significant, and advanced communication technology was used. The CEO of a U.S.-oriented outsourcing studio in Korea told me that unlike in the past, today U.S. studios sent overseas supervisors to Korean studios primarily for their own comfort, not necessarily for the needs of Korean studios (Author’s interview, Apr. 23, 2009).

animation for Japanese projects (Author's interview, Feb. 25, 2009).<sup>11</sup> Even after more Korean studios acquired the capability to handle the entire main production process, it was rarely contracted out overseas; instead, it was divided among Japanese and Korean studios.

This more flexible labor division is associated with a less complete pre-production process than in the U.S. chains. A clear break between pre-production and main production is not applied to the Japanese animation production system. Pre-production materials by the contracting studio were generally less complete and subject to frequent changes during main production. Even last-minute changes in instructions were not uncommon in the Japanese chains. Furthermore, the forms used in pre-production were firm-specific; therefore, Korean studios are expected to use the specific document forms designated by the Japanese studio and labeled with its company name (Author's interview, Mar. 10, 2009).

The flexible division of labor requires a constant interaction between the two parties by phone, fax, and email as well as in person across the Korea Strait. The regular delivery system (called "*hyōphoep'yōn*") between Tokyo and Seoul, one and half hours

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<sup>11</sup> By the mid-1990s, smaller Korean studios working for Japanese studios began to send their animators to its Japanese partner to learn such tasks. The CEO of one of these studios told me that it had taken about three years for animators from the studio to master these advanced tasks. Due to a visa issue, the animators stayed in Japan on and off during the three-year period. When they return after training, the studio is able to assume the entire process of main production (Author's Interview, Feb. 25, 2009).

away by air, is a good indicator of this frequent interaction. In Japanese chains, the original cels (not a finished film as in the U.S. chains) worked on by Korean suppliers were delivered by air to Japanese producers, who then merged these cels to their own work and that from other Japanese suppliers. As more Japanese studios, most of which were second-tier suppliers facing cost-cutting pressures, outsourced more of their work to Korea, some of them formed a group (“*hyōphoe*”) and took turns dispatching their staff to Seoul regularly to deliver the work to be done by their Korean suppliers and they collected finished work for the group members. The first group of this kind was formed around 1991, and two other groups and a specialized commercial delivery service (called “*egg-p’yōn*”) were later launched. As of mid-2009, there were four regular delivery systems in operation (Author’s interview, Mar. 10, 2009).<sup>12</sup>

Thanks to this delivery system, the work done by Korean suppliers is delivered to and reviewed by their Japanese partner on a “daily” basis if any modification is necessary. Because the original cels are delivered, any immediate changes can be made in Japan on the cels. In turn, the presence of this regular delivery system enabled by near-shore sourcing reduced the need for the advance preparation of comprehensive pre-production materials from the Japanese producer’s standpoint, unlike in the U.S.’s

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<sup>12</sup> All the cost involved is fully paid by the members of each group. While a Japanese studio belongs to one of the groups, Korean suppliers, if their buyers are in different groups, have to work in the schedules set by different delivery groups.

far-shore outsourcing model. The intensive and constant interaction allowed for almost daily-based control by the contracting studio of their Korean suppliers in terms of product quality. This also made the extended stay of oversea supervisors as found in the U.S. chains unnecessary.

### **5.2.3 Firm Characteristics: Buyers and Suppliers**

The U.S. and Japanese outsourcing chains in animation that extended to Korea are also different in the types of buyers and suppliers. In the U.S. chains, outsourcing orders were usually placed with Korean suppliers by major animation studios, TV networks, and increasingly cable and satellite networks. When TV networks, such as ABC and NBC, were the major distribution channels for TV animation mostly through their Saturday morning program blocks, the networks hired independent animation studios, like Hanna-Barbera, for producing animation, and the producing studio took charge of the entire production process, including pre-production and the control of main production if it was done overseas.

The rise of specialized animation cable networks, such as Nickelodeon and Cartoon Network, in the early 1990s changed the downstream activities of animation value chains. As these cable networks set up their own production arm that directly manages pre- and main-production process, independent animation producers declined and some of them were acquired by big media conglomerates (see Section 3.4.1). Korean



suppliers increasingly sought direct contracts with the end-buyer rather than going through intermediates in Japan or Taiwan. As a result, the structure of the U.S. chains, despite these changes, has remained relatively compact, as opposed to the Japanese multi-tiered supply system.

On the supplier side, Korean suppliers for the U.S. chains were generally bigger in size and fewer in number compared to their peers for Japan-oriented chains. Several factors, as noted in Chapter 4, affected the consolidation of the supplier base in the U.S. chains. The bigger size of U.S. projects generally favored larger suppliers. One or two Korean studios took care of an entire season, which means that the supplier had to be able to hire a large number of quality animators for an extended period and secure sufficient work space for them, although many were freelancers and some worked at home.

Therefore, established Korean studios with greater financial and human resources were more advantageous in securing orders from American buyers. They could show their ability to maintain a good cash flow and bear a certain degree of overhead costs involved in, say, hiring administrative specialists and keeping internal documentation. These often implicit standards upheld by U.S. buyers are cited by some as a barrier for smaller Korean studios to enter into the U.S. chains (Author's interview, Mar. 10, 2009). In fact, only a few studios were able to successfully migrate from Japanese chains.

In the Japanese chains, buyers for Korean studios are likely to be first or, more likely, second-tier production studio, not TV stations or production committees. Historically, in Japan most outsourced work was farmed out by the prime contractor to domestic second-tier studios, some of which were established by animators or managers who had worked for the first-tier studio (Author's Interview, Mar. 10, 2009). These subcontractors began to contract some of their work out to Korean studios as they confronted rising wages and the depleted pool of Japanese animators as well as cost-cut pressure trickled down along the chains.<sup>13</sup> The size of these studios is relatively small, maintaining a small group of staff (around 30) to keep their internal production lines in operation as well as managing subcontractors both at home and abroad (Author's interview, Mar. 24, 2009).

Korean suppliers for the Japanese market are smaller in size and bigger in number compared to U.S.-oriented suppliers. Their small size and the fragmented work order were mutually affected. Due to the small size of the suppliers, one studio could not handle the entire series; also, Japanese buyers did not intend to grant the whole series to one contractor. The number of episodes assigned to a given Korean contractor was also small; for example, one Korean supplier was assigned to work on only three or

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<sup>13</sup> The problem of unfair subcontracting relations has been lingering for a long time between TV stations and animation production studios and between prime contractors and subcontractors. See a recent government survey on the issue (Japan Fair Trade Commission 2009). The Association of Japanese Animation (AJA) collectively responded to correct unfair practices by TV stations (Author's interview, Mar. 26, 2009).

four episodes in an entire original video animation (OVA) series, which usually consists of 13 episodes.<sup>14</sup> The rest of the episodes were done by either Japanese or other Korean studios in the same group. Combined, these factors – smaller budget, split work, and narrower work scope – have kept the growth of Japan-oriented suppliers within a certain limit, making them smaller and less dynamic than those in the U.S. chains. This generated the occasional efforts of Korean suppliers to move from Japanese chains to U.S. chains, whenever they were interested in getting bigger.

#### **5.2.4 Contract Characteristics**

For the aforementioned differences, the overall size, formality and duration of outsourcing contracts also differed between U.S. and Japanese chains. The production budget and resulting production fees paid to Korean suppliers were greater in U.S. projects than in Japanese ones. American animation requires more cels for the same length of animation compared to Japanese animation, which use extensively limited animation techniques. As noted, this makes differences between U.S. and Japanese projects in terms of the number of cels used and production costs (see Section 4.3.2). Relatively bigger annual orders were granted to a smaller number of Korean studios in the U.S. chains, while orders from Japan were much smaller in size and fragmented. The

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<sup>14</sup> OVA, similar to DTV in the United States, are animated films and series made especially for release in home-video formats. In Japan, it was generally 26 episodes in a Video Home System (VHS) format, but as DVD has become popular, the number of episodes has been reduced by half and instead producers have increased the quality of the product (Author's interview, Jun. 21, 2008).

fact that American 30-min TV animation costs four times than Japanese animation of the same length (Kang and Ch'oe 2001: 40) means that working on the entire season for one animation series for a U.S. buyer would equal doing on four or five Japanese series. The actual gap was likely to be wider because of fragmented work spread among suppliers in the Japanese chains.

In terms of formality of contract, in both U.S. and Japanese chains, according to my informants, as the relationship between the contracting studio and its supplier becomes tighter and longer, written contracts are less likely to be widely used than when the two parties enter into the first contract.<sup>15</sup> When a series continues beyond its first season, as it often does, new terms are even set verbally between the two parties.

However, there is still a difference. In the U.S. chains, the unit of a written contract is generally a series. Although the overall contracts may not be substantially different from one for previous projects, with only the title and the number of episodes contracted and fees being different, a written contract is generally made at the beginning of each project and a season's series. Meanwhile, in the Japanese chains, not only is a

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<sup>15</sup> While U.S. chains are known for less durable buyer-supplier relations and competitive bidding for outsourcing orders, American buyers have also incentive to maintain a long relationship with one or a few suppliers. "Many animation companies will use the same overseas studio for most of their productions. This makes production easier as over time they get used to working together and there is less room for any misunderstanding. This also reduces the need to have an overseas supervisor" (Milic and McConville 2006: 93). Also since many overseas suppliers work for multiple buyers at the same time, and every buyer wants to hire the best teams within the supplier firm (Milic and McConville 2006: 92-93), having a good, durable working relation is also important to get the best out of the supplier.

written contract less common, but when it is done, it is usually not for a specific project but about the general working relations between the two partners for an entire year, such as the boundary of responsibilities of each side and who bears the costs for retake if it is needed (Author's interview, Mar. 10, 2009).

### **5.2.5 Chain Governance**

As a corollary of all the differences noted above, U.S. and Japanese chains exhibit a distinctive outsourcing network structure. In terms of the duration of the buyer-supplier relationship, there is a great deal of variation by project and buyer, and for many long-running series, Korean suppliers have continued to work, sometimes for more than a decade, for the same show and the same buyer (see fn. 15 above). In the U.S. chains, however, suppliers tended to expect that they are all competing for a brand new project or series with one another, whilst such open competition was quite rare in the Japanese chains, where the supplier-buyer relationship is locked for an extended period of time over multiple projects with the same buyer.

Therefore, in the 1990s when outsourcing from the United States was growing, it was an annual event for many of Korean suppliers to contact or visit U.S. studios to pitch themselves and fetch next year's outsourcing orders – usually it happened in spring when American animation studios began to work on pre-production for the next season shows (Author's interviews, Apr. 15 and Apr. 23, 2009). Some Korean studios

established their marketing arms in Hollywood.<sup>16</sup> Active marketing activities often turned into a fierce competition among Korean suppliers and resulted in excessive price-cutting and unrealistic delivery commitments, which eventually hurt their profitability as well as credibility. The competition overheated as the number of outsourced animation series decreased at the turn of the century, weakening Korean suppliers' overall bargaining position vis-à-vis U.S. buyers (Author's interview, Feb. 12, 2009). But, at the same time, this indicates the openness of U.S.-driven supply chains to any capable suppliers to deal with large-volume projects.

In the Japan-oriented chains, most new works or orders come through the existing supplier-buyer relationship. Open competition for outsourced work remains uncommon, and the flow of work from Japan largely depends on the studio's existing relationship with its buyer or the latter's referral (Author's interviews, Feb. 25, Mar. 10, and Apr. 21, 2009). The supply network is quite closed to outsiders. Who the Japanese partner of a Korean supplier is tends to be well-known to any Japanese and Korean firms in the Japanese chains. This quasi-exclusive partnership (portrayed as a "family-like" or "best friends" [*dantchak*] relationship by my interviewees) is hard for outsiders to penetrate; although weakened in recent years, it is still strong in the Japanese chains

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<sup>16</sup> This seasonal concentration of marketing has decreased as 24-hour cable animation channels became the major buyers and distributors of TV animation, replacing national broadcasters. These specialized channels need a constant flow of products over the year to fill their airtime, which has mitigated the seasonality of order-securing competition (Author's interview, Apr. 23, 2009).

(Author's interview, Mar. 10, 2009).<sup>17</sup> In this way, the supplier-buyer relationship in the Japanese chains gradually builds up over a long period of time and through bits and pieces of work in multiple projects, and is expected to last until any of the parties decide to move out of the relationship.

In terms of governance structure, the U.S. and Japanese cases in animation show that these two types of chains have been heading in different directions.<sup>18</sup> Obviously, they are not hierarchy, or vertical integration, because Korean studios, in most cases, are independent, not affiliated to any foreign entity.<sup>19</sup> They are not a market-type relation either, which is characterized by price-based transactions between a large number of unanimous buyers and sellers, because a very specific type of product is commissioned to be made based on the instructions given by the buyer. Therefore, they should fall into the spectrum of modular, relational, captive networks (Gereffi et al. 2005).

In the initial stage of small-scale outward processing (1966-1985) (see Section 4.2), the governance structure between Korean suppliers and foreign buyers was likely to be

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<sup>17</sup> The CEO of a Korean supplier for Japanese firms who I interviewed shared a story that when he recently visited his long-time Japanese partner, the second-tier studio's owner showed him a fax message from a Korean firm to pitch for outsourced projects. The CEO said that it was a surprise to him because such a thing would have been hard to imagine and considered as an inappropriate behavior in the past (Author's interview, Mar. 10, 2009).

<sup>18</sup> The following discussion focuses on the governance structure between foreign buyers (e.g., TV networks in the United States; prime contractors or second-tier contractor in Japan) and their immediate Korean suppliers.

<sup>19</sup> There are several cases of vertical integration; for instance, Rough Draft Korea is the sister studio of Rough Draft Studio in the United States; Gonzo Korea is the subsidiary of GDH group in Japan.

predominantly captive, in which case small suppliers alone are not able to handle complex transactions and thus they are dependent on much larger buyers who closely monitor and coordinate the entire production in addition to supplying key input materials (Gereffi et al. 2005: 84). This is indicated by the presence of overseas supervisors stationed in the Korean studios as well as Korean studios' reliance on imported supplies and the narrow scope of work assigned to them.

Heading into the second stage of development in the late 1980s, U.S. and Japanese chains appear to have followed different paths in terms of GVC governance. The U.S. chains became closer to modular relations, where suppliers typically “make products to a customer’s specifications, which may be more or less detailed,” assuming “full responsibility for competencies surrounding process technology, use generic machinery that limits transaction-specific investments, and make capital outlays for components and materials on behalf of customers” (Gereffi et al. 2005: 84). High codification of transactions (assisted by detailed pre-production packages), relatively low explicit coordination (indicated by the declining role of overseas supervisors), low asset-specificity (implied by standardized pre-production materials and regular competitions for new outsourcing contracts), and high supplier capabilities (indicated by higher requirements for finance and human resources) all point to the shift to a modular relation as Korean suppliers assumed a full-package main production for U.S. buyers.



In contrast, the Japan-oriented chains have tilted toward a relational form of governance, which is characterized by complex interactions, mutual dependence and high levels of asset specificity (Gereffi et al. 2005: 84). “The mutual dependence that then arises may be regulated through reputation, social and spatial proximity, family and ethnic ties, and the like... The exchange of complex tacit information is most often accomplished by frequent face-to-face interaction and governed by high levels of explicit coordination, which makes the costs of switching to new partners high” (Gereffi et al. 2005: 86). Low-to-mid codification of transactions (evidenced by less complete pre-production materials), high level of explicit coordination (supported by a daily delivery system), high tacit knowledge and asset-specificity (indicated by a long-term, close, and exclusive relationship) and lower level of supplier capability (shown in the limited scope of work assigned and small in the size of capital and employment) have all contributed to Japanese chains moving toward a relational type of governance.

It should be noted, however, that not every firm has completely transitioned to a modular or relational form of governance. In reality, most of the Korean suppliers appear to lie somewhere in the middle from a captive relation to a modular form (in the U.S. chains) or a relational form of governance (in the Japanese chains). It is partly because the power relation between Korean suppliers and foreign buyers is still in favor of the latter, which provides a critical access to foreign markets, without which most of the Korean suppliers would not be able to stay in the chains. Market access was more

important then than now because there were few alternative markets for Korean suppliers to explore. The domestic market was not an option when it was dominated by imported animation; the segmentation of the U.S. and Japanese chains (see below) also limited the choice of Korean suppliers.

### **5.2.6 Organizational and Upgrading Consequences**

The differences between U.S. and Japanese chains discussed above have made significant impacts on the organization and upgrading of Korean animation suppliers. In the previous chapter, some of the key consequences are outlined. The influx of big-budget U.S. buyers shifted the main destination of Korean animation exports from Japan to the United States (

Table 9), which became the main growth driver of the Korean suppliers (Section 4.3.2). Different growth patterns emerged in the two chains; the U.S. chains were characterized by the rise of a few large suppliers that could handle a large volume of main production orders, while the Japanese chains were populated by a large number of small-sized suppliers to complement each other (Section 4.3.3). Building upon the discussion, this section specifically examines how these different organizational and upgrading patterns are associated with the differences in products, buyer types, contract forms, and governance structures.

First, the divergent patterns of the two value chains generated, organizationally, two segmented groups of suppliers with little boundary-crossing between the two. Korean suppliers for Japanese animation studios hardly worked for American projects. Not only the style of animation is different between American animation and Japanese animation, or "*anime*", but also due to their smaller size and lower capital-intensiveness Japan-oriented suppliers had difficulty in participating in the U.S. chains, which bore higher standards on those regards, although entry was generally open to any firms. From the standpoint of the suppliers working for the U.S. chains, entering into the Japanese chains was discouraged because of the overall smaller size of project and the closeness of the supply network. As a result, the two supplier groups maintained a quite clear boundary between each other with only a few firms crossing it, mostly from the Japanese side to the U.S. side.

Second, the divergence between Japanese and American chains created different dynamics of upgrading and firm growth. In the U.S. chains, the growth was fast and substantial. Securing the order of a major season series with usually 20 to 26 half-hour episodes had a great impact on the studio's financial performance due to the sizable budget involved. Many well-known Korean animation suppliers in the 1990s grew in a relatively short period by securing such major buyers and contracts. Annual contracts, as opposed to piecemeal orders, also provided the supplier firm with stable cash flows and managerial certainty as long as the order remained with it.

However, since U.S. studios were quite open to grant a contract to the new supplier that was more competitive, particularly in price, the fate of Korean suppliers fluctuated depending on which supplier secured the big orders in a given year. Not only maintaining a solid financial standing and retaining skilled animators, but also building good social networks with key decision makers in U.S. studios, such as executives, producers, directors and creators, played an important role in the competition for outsourcing orders.<sup>20</sup> The important flip side of this fast growth was the equally sudden decline of studios when they had lost big contracts or buyers. Korean suppliers

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<sup>20</sup> When these people are promoted to a higher rank position within the studio or the station, or move to a bigger buying firm, the outsourcing studios that have maintained a close relationship with them expect to have a better chance to get more and bigger orders. Sometimes Korean studios hired a marketing specialist who was well networked across Hollywood, likely Korean-Americans, to boost their effort in the outsourcing market (Author's interview, Feb. 12, 2009).

collectively experienced such a downfall in the early 2000s, when many of U.S. buyers left for lower-cost countries or a different type of animation, i.e., computer animation (see Section 4.4.1).

In contrast, this quick coming-and-going pattern was rarely observed in the chains linked to Japan. The long-term supplier-buyer relationship, more often closed and exclusive, found in the Japanese chains, stabilized the growth patterns of Japan-oriented suppliers. There was neither a sudden rise nor a quick fall. As long as they had one or two reliable Japanese partners that constantly produced and outsourced a certain amount of animation, Korean studios expected that they would receive some of their orders and the relationship would continue as long as it goes well.<sup>21</sup>

Although Japanese supply chains were generally closed to new entrants, their characteristics, such as a smaller project size and fragmented division of labor, helped lower the entry barrier for small suppliers. Unlike U.S. studios, Japanese studios generally are disinterested in the financial stability and organizational transparency of their (potential) suppliers and solely focus on their project performance (Author's interview, Mar. 10, 2009). It created a low entry barrier for small-sized studios with little financial resources but a few skilled animators. The fact that outsourced work was split among subcontractors, considering each firm's skill level as well as its production

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<sup>21</sup> A sudden delay of payment or reduction of orders may be an alarming signal to Korean suppliers that the Japanese partner faces a problem (Author's interview, Mar. 10, 2009).

capacity, also facilitated the entrance of small firms with limited skill sets and human resources. They could join the project even without large financial and human resource outlays, and by proving their performance, the initial project could lead to another one and eventually they could build a strong relationship with Japanese studios.

The pitfall of this low entry barrier, however, was that it promoted the constant fragmentation of Korean suppliers, keeping them small. Unlike in the U.S. chains that encouraged supplier consolidation in open competition, in the Japanese chains, animators were much easier to spin off and set up their own firm as long as some batch of orders was guaranteed by Japanese suppliers, usually those who their former employer caters to. The long-term and close relationship has a downside as well. Lacking a written form of contractual protection, it significantly reduced the supplier's bargaining power vis-à-vis Japanese buyers. They generally have a little chance to affect the price tag of their services and work schedules, which are primarily determined by their Japanese partners. And the often personalized relationship hinders Koreans from raising their voices. The CEO of a Korean supplier for Japanese studios told me that even when something goes wrong and his Japanese partner has to take responsibility for

it, he would choose to make up for his loss by working on other projects rather than wasting time in international lawsuits (Author's interview, Mar. 10, 2009).<sup>22</sup>

How did these differences in growth patterns play out after the offshore outsourcing boom was burst and a new mode of upgrading strategies emerged in the early 2000s? The rapid decline of outsourcing for the U.S. animation market forced more prompt strategic responses, which were either exit from or stay in the outsourcing market (see Section 4.4.1). For some firms that had decided to exit from outsourcing, their relatively large size as well as the fact that they were well-known to Western markets for their production skills was likely to facilitate their quick transition to the original production model, either by themselves or through international coproduction.

For the suppliers in Japanese chains, the transition to the original production model appears to have come a little later. Not only the market environment surrounding them did not drastically change (see Section 4.4.1), but also the limited resources they had in terms of financial and human capital resources appears to have prohibited a quick transition to the original production model. And when it happened, it often did so in a collective manner. The company named Hi-Five is a good example. It was established in 2008 by five Korean animation studios that had been working for Japanese

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<sup>22</sup> The CEO of another studio working for U.S. buyers also said that written contracts are mostly for buyers, rather than suppliers, because suppliers with little experience in international lawsuits usually have less ability to enforce the contract on buyers when the contract is breached (Author's interview, Apr. 23, 2009).

studios for more than a decade as offshore contractors. Because any single one of the studios alone was not able to produce an original animation and it would be too risky as well, they decided to join together to create a series of original animations for local and regional markets, at the same time continuing to do their outsourcing business with Japanese buyers (Author's interview, Mar. 10, 2009).<sup>23</sup> Of course, it remains to be seen how long such differences between U.S. and Japanese chains will persist, but it is likely that the influence of divergent chains will outlast the presence of the chains themselves.

### **5.3 International Coproduction Chains**

As discussed in Chapter 4, international coproduction has emerged as a potential new upgrading path for Korean animation firms since the early 2000s (see Section 4.4.4). It has also been promoted by the Korean government as a solution to facilitate financial and creative investment from overseas as well as to increase the chance for local studios to engage in major distribution markets (see Section 6.4). The fact that Korean studios have found a growing chance for them to be involved in international coproduction reflects the change in global animation production, as discussed above (see Section 3.4).

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<sup>23</sup> While the slump of the Japanese animation market in the 2000s and the competition from China have led these Korean suppliers to consider the move toward original animations, another motivation for this move cited by one CEO is that as the company moved up to advanced skills like layouts and key animation, the aspiration of young animators has gone up. They were increasingly unsatisfied with the limitation of working on foreign outsourced work, which does not allow for creative input from their side (Author's interview, Feb. 25, 2009).



This section focuses on international animation coproduction chains from a GVC standpoint. It examines the structure of the chains and compares it with those of Japanese and U.S. outsourcing chains to highlight the different opportunities and constraints posed for Korean firms by this new type of chain.

### **5.3.1 Structure of International Coproduction Chains**

International coproduction refers to a commercial partnership by firms from different countries for the development, production and distribution of an audio-visual product. It has been widely used in film and TV production to share production expertise and services and financial resources (Strover 1995; Hubka 2002). Forms of international coproduction widely vary, depending on the participants and how the deal is structured. Even for Korean animation studios, which have joined very recently this type of collaboration, the ways they participate in international coproduction have diversified over the last few years (KOCCA 2009b).

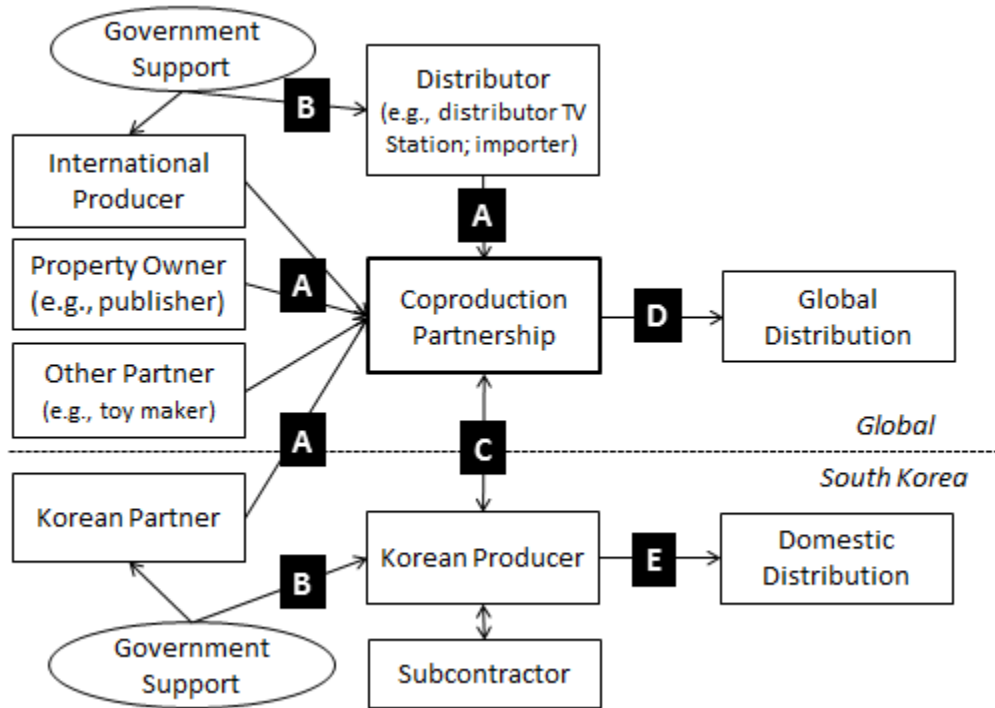
To some extent, the concept of international animation coproduction is similar to the Japanese production committee model discussed above. Different types of commercial actors contribute money and/or professional services to an animation project in exchange for certain rights (e.g., distribution, merchandizing) and the profits, if there are any, to be shared. By sharing rights and profits as well as risks and potential losses, coproduction partners can mitigate the uncertainty and spread the risk involved in

producing and selling cultural products (Caves 2000). Also, by pooling together financial, creative, and production resources, they can engage in a bigger scale of project than what they could do alone. Finally, by collaborating with different types of actors, they can expect to complement their deficient skills with what others are good at.

Coproduction partners may include distributors (e.g., TV stations, program importers and distributors); animation producers; property owners (e.g., publishers); and other partners (e.g., toy makers; game publishers). Like any other TV property, animation needs distribution to succeed, and having prominent global-scale distributors, such as TV networks in major markets, as partners is critical in any coproduction deal (Raugust 2004: 160). Some partners may contribute money alone in exchange for rights or investment returns (called “co-financing”). A toy maker, for instance, can invest in animation coproduction in return to securing in advance merchandizing rights to the characters featured. Coproduction (in a narrow sense) involves a certain contribution to the creation of the production at any of the pre-, main-, or post-production stages. Therefore, co-financing and coproduction partners may coexist in a coproduction deal (in a broad sense).

For a coproduction deal to be established, all parties have to agree to who contributes what (e.g., funding, services, properties), how to value those inputs and how rights and profits are divided (“A” in Figure 6). Some may come from the countries whose governments provide financial support (e.g., subsidies, tax breaks) to the

international coproduction qualified as local content.<sup>24</sup> These partners can bring additional financial contributions onto the table on top of those committed by the partners themselves (“B”).



**Figure 6: International animation coproduction chains**

Distribution or merchandizing rights can be divided by territories (i.e., geographical regions and countries; distribution windows, such as TV, DVD, the Internet). A Korean producer may secure distribution or merchandizing rights within

<sup>24</sup> To be qualified, a coproduction deal should satisfy the requirement given by the government, concerning less cultural factors than ownership percentage (the minimum percentage of equity shares owned by local firms) and the use of local talent (the minimum percentage of work done in the given country). Therefore, arranging the coproduction deal is more complicated as government support from more than one country is needed to meet all the requirements set by those countries (Raugust 2004: 169-170).

Korea or a broader territory, such as all of Asia (and sell them to other firms), and other partners split the rest of the territories. Profits (the total revenue minus associated fees and costs) can be divided in various ways; the entire profits could be put together in one pot and then distributed it to the partners according to their equity shares, or partners in charge of each territory have a right to claim the profits from their own territory and only profits remaining after the claims are distributed to all the partners according to their shares.<sup>25</sup>

Once the project is ready to proceed to production, the same steps as applied to any animation production are taken. Each production step is carried out by one or more coproduction partners and/or external service providers (“C”). For instance, the Korean producer participating in the coproduction may assume the entire or part of the production in exchange for service fees.<sup>26</sup> Since one of the purposes of international coproduction is to maximize the complementarity of the partners’ competence as well as each coproduction partner wants to keep work flowing into the studio (Raugust 2004:

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<sup>25</sup> There are more variations than this, of course, depending on payment percentages (how much will each contribute), rankings (who will get paid first), and timing (when will they get paid). As the number of partners increases, negotiations become more tricky (Raugust 2004: 166-167).

<sup>26</sup> Generally, the partners provide services at a reduced rate, and contribute the rest in exchange for equity shares (Raugust 2004: 162). In this way, the entire project can reduce the production budget, while the production studio can join profit-sharing without any financial commitment from its side. Or the production studio may choose to swap entirely their services with profit-sharing rights. The most desirable outcome for the studio, of course, would be that the project generates more profits to be claimed by the studio than the service fees it deferred. If it fails to generate profits to be shared, however, the studio might not be paid at all for its services.

162-163), the division of tasks can be complicated and multinational. For instance, pre-production is carried out by the French, and main production is done by a Korean studio, and then post-production is conducted in Canada.<sup>27</sup> Once the animation is completed and every partner agrees to bring it to market, it is distributed in multiple territory markets (“D”), including the Korean one (“E”). As long as it generates profits, the participating parties will continue to receive returns from the project.

### **5.3.2 A New Upgrading Strategy or Disguised Offshore Outsourcing?**

The international coproduction chains differ from the outsourcing chains in several aspects. First, in a coproduction deal, partners share IPRs to the product coproduced. Therefore, Korean studios can acquire IPRs by participating in coproduction. In contrast, outsourcing studios have no rights to the product they participated in making. Second, coproduction studios are rewarded with investment returns proportional to the profits generated.<sup>28</sup> The amount of the returns is closely associated with the market performance of the animation, and returns continue as long as profits are made. Meanwhile, outsourcing studios are compensated with production fees, which is a one-time payment at a fixed rate. The fees are related not to the

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<sup>27</sup> Joining an Asian production studio as a partner is considered an attractive option because sending production to Asia can reduce a show’s budget by 20 per cent (Raugust 2004: 162-163).

<sup>28</sup> If the studio participates in production, it may receive production fees for its services (unless it has swapped production service fees with equity, see fn. 26 above) in addition to the returns split later if profits are made.

performance of the product in the market, but to the production costs. Instead, unlike coproduction studios, outsourcing studios do not take responsibility for any loss from the animation. Third, coproduction generally requires a broader range of commitment, including financial investment, than outsourcing, which usually requires the on-time delivery of the contracted work. Finally, the duration of coproduction can vary. The partnership can be formed for a single animation project and once the project is done, it is dissolved. Or, it can be formed for multiple projects for an extended period of time. The collaboration starting from a one-and-done deal can turn into multiple-year, multi-project deals.

In terms of GVC governance, lead firms in coproduction chains can be varied depending on the project involved, although they are likely production firms or distributors based in major animation markets in North America, Europe and Japan. Given the persisting importance of developed country markets, distributors from those markets will probably play a major role in coproduction; production firms in advanced markets are also significant because they tend to be more resourceful than ones from developing countries or small domestic markets. The ability to commit more financial investment tends to be associated with a larger share and bigger bargaining power in the coproduction deal. Major animation producers based in the countries whose governments support international coproduction, such as MoonScoop (France), Nelvana and Cookie Jar (both from Canada), have an extra advantage.

Joining the big league with these major international players has an obvious upside because the project is likely to be more visible, globally distributed, and thus more successful in the market. The downside, however, is that it requires substantial financial investment in order to secure a meaningful share (as well as voice) within the partnership, and this could work as an entry barrier to international coproduction for small-sized firms. The financial entry barrier, generally, appears to be higher in coproduction with Western firms than one with Asian firms due to differences in the budget size of animation project between the two markets (similar to the difference between U.S. and Japanese chains; see Section 5.2.4). With the same amount of money, for example, a Korean studio can have a greater share in a coproduction deal with Japanese partners targeting Asian markets than in a partnership with Western firms aiming at global markets.

Power relations within coproduction partnerships are critical because they determine in the negotiations how the deal is structured, how associated rights and profits are divided, and how each production task is allocated to the partners. It can determine whether and how much a Korean studio can participate in concept development and pre-production beyond main production, and how much is paid as a fee for the services provided by the partners. Compared to outsourcing contracts where production fees are determined within a market price range depending on the required quantity and quality of the final output, in coproduction deals there are less structured

rules to determine the value of non-financial contributions, such as production services (Raugust 2004: 159). Therefore, the final outcome considerably depends on bargaining between coproduction partners based on the financial and non-financial contributions of each.

Thus, in addition to the size of financial and non-financial commitments, effective negotiation skills as well as the ability to handle international legal issues are crucial in securing an advantageous position. In a worst-case scenario, even when the original concept is created by a Korean firm, its financial returns from the contribution remain small if the most of creative development and pre-production based on the concept are conducted abroad by foreign firms and these firms claims bigger shares in profit-sharing in exchange for their services. Therefore, if a Korean firm fails to secure a meaning share or rights, as one of my interviewees pointed out, coproduction might end up with offshore outsourcing, only in a disguised form (Author's interview, Jun. 10, 2008).

One way to avoid such a pitfall is to find the right partner. As noted above, in a regional partnership that involves producers and distributors in Asia, Korean firms can play a bigger role in shaping the coproduction deals compared to the one with major global producers and distributors. A relatively small-budget for animation in such regional markets can reduce the burden of financial commitments. This is part of the reason why many of Korean firms' coproduction projects in the early years were with



Japanese partners. In 2003-2005, only three projects out of the 14 coproduction projects Korean studios participated in included non-Asian partners and nine projects were solely between Korean and Japanese firms (KOCCA 2009b) (see Section 4.4.4). But, on the flipside, the fact that coproduction with non-regional partners has increased since then may indicate an upgrading effort by Korean studios that are more willing to engage in bigger projects with greater contributions, despite potential difficulties in bargaining with more powerful players (Author's interview, Mar. 6, 2009).

Another potential difference maker in bargaining is institutional supports (Raugust 2004: 170). An Indian executive told me that everyone would want to be a coproduction partner to those who have government support at their back, such as Canadian and French firms (Author's interview, Jun. 17, 2009A). With these firms on board, the project can get benefits not only financially but also in distribution. In case there is a quota system in place for local content in those countries, the project will be considered as local content and thus local TV stations may be more willing to purchase it. This is why the Korean government since the early 2000s has bolstered its supporting effort to the local animation firms that hope to enter into international coproduction (see Section 4.4.4; Section 6.4). It is an effort to make Korean firms more attractive in the global coproduction market.

Finally, international coproduction also highlights the important role of domestic and regional markets. Having a big and lucrative market back home can help local firms

improve their bargaining position in coproduction negotiations; similar to everyone wants to partner with Canadian and French firms (see fn. 30 in Chapter 4), everyone wants to work with firms that have a strong distribution power in lucrative markets.<sup>29</sup> While the Korean animation market is not big and commercially attractive enough to make Korean firms popular in the coproduction market, increasing their influence in distribution and merchandizing on East Asian market vis-à-vis other Asian firms could be a way to consolidate their presence in a hunt for lucrative coproduction deals, the competition which is increasingly populated by firms from other Asian countries, like China, Singapore, and India.

## **5.4 Conclusions**

This chapter has examined three animation value chains that Korean studios have been involved in. It has shown significant differences between U.S. and Japanese outsourcing chains in terms of chain structure, division of labor, buyer and supplier characteristics, and chain governance. While both chains landed in Korea during the first wave of globalization in animation, the difference between the United States and Japan in terms of their domestic animation production systems and offshore outsourcing strategies has made the chains widely distinctive from each other and created different

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<sup>29</sup> An animation producer handbook notes: "Distribution is so important that in some cases the selection of an animation studio as a partner is due more to its ability to bring in a broadcast sale with a network in its territory than to any financing or services it provides" (Raugust 2004: 161).

upgrading patterns among two supplier groups in Korea that segmented between the two end markets.

The U.S. chains are characterized as follow: (1) a compact offshore outsourcing system with clearly-defined division of labor; (2) outsourcing of the entire main production assisted by complete pre-production materials and overseas supervisors; (3) direct outsourcing from the buyer to a small number of large overseas suppliers; (4) annual big-budget, project-based contracts in a formal form; (5) open supplier competition; and (6) evolution from captive to modular governance.

In contrast, the animation chains that feed into the Japanese market have the following features: (1) a multi-tiered outsourcing system with flexible and complementary division of labor; (2) outsourcing of limited main production tasks with incomplete pre-production materials (supplemented by a regular air delivery system); (3) tiered and split outsourcing from the first- or second-tier Japanese supplier to a large number of small Korean suppliers; (4) small-budget, studio-based contracts in an informal form; (5) closed supply networks with long-term supplier-buyer relationship; and (6) evolution from captive to relational governance.

The coexistence in Korea of these two outsourcing chains destined to different end markets has generated two segmented groups of suppliers, as found in other research (Gibbon 2008; Morris et al. forthcoming), which have different firm characteristics and firm ecologies, an aspect little studied by current scholars. The

growth patterns of firms differed in these two chains. Much faster growth (as well as a quick fall) in the U.S. chains contrasted with less up-and-downs, yet much slower growth in the Japanese chains. Different types of openness affected the degree of supplier consolidation. U.S.-oriented suppliers confronted open competition yet higher supplier requirements, which led to a consolidated supplier group. Meanwhile, in the Japanese chains, supply networks were closed to outsiders, but lower supplier requirements and fragmented work assignments facilitated the entry of small firms and led to the fragmentation of the supplier group.

Finally, newly emerging international coproduction chains present a different GVC structure from those in U.S. and Japanese outsourcing chains. To upgrade, Korean studios in this chains take a more risk-bearing, high-commitment approach in exchange for the expectation for higher returns and greater visibility in global markets. While the structure of the chains varies by project depending on how the coproduction deal is structured, power relations between the firms within the partnership are critical to determine the gains captured. Regional partnerships can provide a lower barrier for entry and upgrading, although some of the same limitations applied to Japanese outsourcing networks noted above can be applied. Having a solid control in domestic and/or regional distribution markets is another strategic advantage. Finally, institutional supports, such as government funding for coproduction, are also critical to improving the bargaining position of local producers in this new form of animation chains.

In the next chapter, we examine how the Korean state has changed its role in the animation industry, from policing to promoting the industry.

## 6. THE KOREAN DEVELOPMENTAL STATE AND THE ANIMATION INDUSTRY

### 6.1 Introduction

In the previous chapters, the evolution of the Korean animation industry was examined in the face of two globalization waves. This chapter looks at it from a different angle, i.e., the role of the state. The challenges of globalization were daunting to developmental states in East Asia, and appear to have been the most consequential to Korea. Known for the most direct and bureaucratic form of state intervention (Amsden 1989; Kim 1997), the country was hit hard by the Asian economic crisis in 1997-1998. The ensuring restructuring guided by international financial institutions has triggered the debate on the fate of the Korean developmental state (Kim 1999; Pirie 2008; Chu 2009; Wong 2004b), as discussed in Chapter 2.

This chapter examines the Korean state's responses to the globalization challenges through the case of the animation industry. It attempts to answer the following questions: (1) How has the Korean state engaged in the animation industry, particularly in terms of affecting local animation studios' integration to global production networks, from the mid-1960s to the present? (2) How similar or different is the role of the state in animation from the Korean state's well-documented developmental role in the past and how has it changed after the economic crisis?

The Korean state's relation with the animation industry underwent three distinctive phases, which somewhat match with the periodization based on the mode of sectoral development in Chapter 4. The initial phase (1966-1994) was characterized by the state's non-intervention. The gradual integration of Korea into the global animation production network as an offshore supplier occurred without the state's support. This non-intervention period ended in the early 1990s as the state responded to mounting pressure from globalization, on the one hand, and to the need of post-industrial transformation, on the other hand. The second phase (1994-1999) featured a drastic, state-led policy turn to the building of a local animation industry. This involved major legislative and organizational changes in order to facilitate the investment of the chaebol into audio-visual sectors. The economic crisis of the late 1990s marked a significant twist in state intervention. In this third phase (1999-the present), confronting the post-crisis retreat of the chaebol from audio-visual sectors and the steep decline of animation outsourcing exports, the state actually expanded, not reduced, its sector-specific policy support to enhance the global competitiveness of local producers, particularly small ones, and formed a renewed policy network with the industry.

Table 14 summarizes this three-phased development in terms of (1) industry policy; (2) state-business relations; (3) and government organizational structure.

**Table 14: The state and the Korean animation industry**

Periods	Phase I (1966-1993)	Phase II (1993-1999)	Phase III (1999-Present)
<b>Mode of state intervention</b>	Ignorance and suppression	Building local cultural industries	Active promotion with institutionalized support
<b>Industrial policy</b>	No supportive policy	Cultural industries legislations	Many supportive programs
<b>State-business relations</b>	Bureaucratic control	State-led network in formation	Embedded networks mediated by KOCCA
<b>Government organizational structure</b>	Ministry of Culture and Public Information; censorship agencies	Establishment of the Cultural Industry Bureau (CIB)	KOCCA as a specialized support agency

## **6.2 Policing Animation, Selectively: 1966 – 1993**

Following a brief spell of mushrooming local production in the mid-1960s, Korea became quickly integrated into global animation outsourcing networks organized by Japanese and U.S. producers. While this shift to the export-oriented path crippled a nascent local production system over the next decades, animation exports through outsourcing took off in the mid-1980s and continued to grow, leading to the “golden era” of Korean animation exports in the 1990s (Sections 4.2. and 4.3).

### **6.2.1 Ignoring Outsourcing Exports and Suppressing Local Production**

In this early juncture of industrial development, the Korean state played virtually no role in promoting animation exports, defying the conventional portrayal of it as an active promoter of export growth for much of this period. To the contrary, the government’s approach to animation and cultural industries as a whole was



characterized by ignorance and hostility. The state remained indifferent toward animation offshore outsourcing, and its extensive censorship and the domination of imported animation created an unfavorable environment for local animation production.

Throughout this period stretching to the early 1990s, the state had no industry-specific policies for animation and cultural industries at large. The Park Chung-Hee government's decision in 1965 to reestablish economic and diplomatic ties with the former colonizer Japan was critical to the shift of the Korean economy to export-oriented industrialization, facilitating in animation the flow of foreign, particularly Japanese, outsourcing work to Korea. It was the following year, in fact, that Korea's first outsourcing work was shipped to Japan (Section 4.2.1). However, throughout the period when export promotion was the Korean state's top priority, animation offshore outsourcing rarely garnered any attention from the state, let alone any sector-specific support.<sup>1</sup>

Furthermore, cultural industries faced a "dark age" for much of the 1970s. In the wake of the first oil shock and the ensuing global economic downturn, the Park military regime made a turn to cultural as well as political oppression (known as the *Yusin* [revitalization] system of 1972 in Korea's history) to confront its political and

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<sup>1</sup> A partial explanation might be that animation exports were not large enough to generate a substantial number of jobs (compared to other light-weight manufacturing sectors, such as apparel). Also, the Korean state's economic development strategy had moved its attention by the early 1970s to capital-intensive industries, such as steels, automobiles, shipbuilding, etc.

developmental crisis. In culture, this effort involved an extensive form of media control to suppress free press and anti-government speeches, and widespread government censorship of popular culture (Jin 2006; Son 2006). Cartoons and animation were no exceptions. The government tried to censor not only anti-government material but also any cultural works broadly (therefore arbitrarily) considered as “harmful to society.” Cartoons or animation were not allowed to be published or screened without the pre-approval of a government deliberation body. In 1980-1987, more than half of cartoons were ordered to be revised under this disguised form of censorship (Han 1995). In addition, anti-cartoon campaigns propelled by the government labeled animation and cartoons as “one of the six evils of society” and harmful to children’s education (Lent and Yu 2001). Finally, the government justified the anti-animation campaigns partly by associating the genre with Japanese pop culture, the imports of which had been officially banned since 1945.<sup>2</sup>

This association, while not totally ungrounded, reveals the state’s contradictory approach toward animation. As noted in Section 4.1.2, the broadcasting hours of national TV networks were already filled with imported, mostly Japanese, animation. Most of well-known Japanese TV animations, including *Astro Boy* (1963), were broadcast

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<sup>2</sup> For instance, following a successful run on TV of the Japanese robot animation series *Mazinger Z* (1972-1974), several local animated films, including *Robot Taekwon V* (1976) and *Taekwon Dongja Maruchi Arachi* (1977), were produced featuring robots. They were condemned by the government for offering an “empty and meaningless illusion” for children, similar to Japanese animation (Lent and Yu 2001).

in Korea, often without the viewer's knowledge that they were, in fact, Japanese. The airing of Japanese TV animation on Korean TV increased in the 1980s as animation programming expanded (Hwang 1998: 177-180). Animation was excluded from the import ban on Japanese popular culture because it was considered as a children's program.<sup>3</sup> Korean broadcasters preferred imported animation over local ones because the former cost far less.

This "prohibitive" industrial policy, or suppressive cultural industry policy, was also reflected in the fact that the state had no specific organization dedicated to support cultural industries. State intervention in culture was mainly through the Ministry of Culture and Public Information (MCPI), whose functions included media control and censorship. It was not until 1990 that the government had a separate ministry dedicated to cultural policy, as the Ministry of Culture (MOC) split from the former MCPI. In 1974, the MCPI announced its first five-year cultural policy plan, similar to what had done in economic planning, but its emphasis was limited to reviving cultural folk art, with virtually no attention to cultural industries (Yim 2002).<sup>4</sup>

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<sup>3</sup> It remains unclear what motivated the government to grant such an exception to Japanese animation. Some attribute the massive inflow of Japanese animation to the Korean government's turn to a pro-Japanese cultural policy after the 1965 diplomatic normalization with Japan as Korea's economy and national security were integrated to a U.S.-led regional bloc in East Asia against Communist regimes (Pak 1997). This does not explain, however, why animation was treated differently from other forms of Japanese pop culture.

<sup>4</sup> It was titled "The Five-Year Plan for the Restoration of Culture-Arts" (1974-1978) [*Munye chunghŭng o kaenyŏn kyehoek*]. The second five-year plan was made in 1978, but discarded by the Chun Doo-Hwan government (1980-1988), which succeeded the Park regime after the coup d'état in 1980 (Yim 2002).

Finally, the state's lack of interest generated little need for building a policy network in and around the government for cultural industries. Animation offshore outsourcing did not draw interest as a vehicle of export promotion, which made the sector uninteresting to economic ministries, such as the EPB. Similarly, the autonomous state bureaucracy under the authoritarian military regime did not want any input from an industry that was considered as anti-social. Therefore, there does not appear to be any sustained interface between the government and the animation industry over this period.

### **6.2.2 The State and the Local Production Boom in the 1980s**

The local animation production boom in the late 1980s may sound at odds with the state's suppressive policy toward animation because, as discussed in Chapter 4, it was driven by the government. The Korean government realized that the abundance of foreign animation on Korean TV might undermine its effort to advance the country's cultural prestige in the world stage as it was preparing for two major international sports events (see Section 4.3.4).

However, it is hard to suggest that this move indicated any policy turn by the state toward animation, because its motivation did not lie in promoting the animation industry but in avoiding any international embarrassment and saving its cultural prestige. Furthermore, the state relied on its power over the media to make this happen.

The government directed two national broadcasters under government control in 1987 to produce and broadcast local original animation. Finally, this state-led local animation boom did not accompany any significant policy and organizational change. The state did not initiate any promotional measures for local animation, nor take action to curb the importation of foreign animation with which local animation competed. The problem of Japanese-dominated TV animation programming was framed in terms of the country's global image, not from the perspective of promoting local industries. As a result, ironically the airing of foreign animation increased in 1987 (Hö 2002: 109-110).

With no specific policy actions for promotion by the state, the boom did not last long enough to change the incentive structure for industrial actors to invest in local animation. National TV networks, although noticing a great deal of viewer interest in indigenous animation and with some indications there may even export potential,<sup>5</sup> remained convinced that imported animation was a less expensive and risky option than producing their own (Hö 2002: 108). They often used the airing of locally produced animation to shield themselves from public criticism of an excessive amount of imported animation on TV. Local animation studios weren't enthusiastic either. Most TV animation during the boom was produced by major local animation studios, such as Hanho, Seyoung, Daiwon, and Shinwon, whose main business was offshore outsourcing.

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<sup>5</sup> Many of these early locally produced animations were sold to foreign broadcasters, for example, in Turkey, Taiwan, Germany, and Thailand (Hö 2002: 107).

By the late 1980s, the business was entering into a great expansion period that would last until the end of the 1990s. As a result, they largely considered local animation projects as “fillers” to keep up work flow and help them to retain animators during the outsourcing off-season (Author’s interviews, Feb. 12 and Apr. 23, 2009).<sup>6</sup>

In short, at this initial juncture, the policy choices made by the state had indirect consequences on the development path of the Korean animation industry. The state’s tight policing of cultural sectors through censorship and non-action against the abundance of imported animation discouraged the development of local production, already crippled by the rise of animation outsourcing. Korea was integrated as a consumption node for foreign animation, ironically some of which was helped by the Korean outsourcing studios, whose names, though, did not appear in the ending credit. The underdevelopment of indigenous animation made offshore outsourcing virtually the only viable option for Koreans to want to do animation until mounting globalization and domestic pressures forced the state to rethink its course.

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<sup>6</sup> U.S. studios and broadcasters plan production for the next broadcasting season usually starting in August or September. After all the pre-production is completed, the Korean outsourcing studios can start their part of work in between March and May. Therefore, they annually experienced a shortage of work during off-season, usually from October through May (Author’s interviews, Feb. 12 and Apr. 23, 2009).

### **6.3 Promoting Local Animation against Globalization: 1993 – 1999**

In the early 1990s, the Korean state made a drastic switch in its approach to animation and cultural industries in favor of being an active promoter. Responding to external pressures for opening up local cultural markets and changes in domestic political economy, new legislations and policies were enacted to promote domestic cultural industries. Various government programs were initiated to induce investment into those sectors. Regulatory obstacles, such as censorship, were removed. The state made organizational changes to support this action by established new government organizations dedicated to cultural industries. A new state-industry interface began to emerge in animation with supportive policies.

#### **6.3.1 A New “Cultural Industry” Initiative: Policies and Organization**

All of these changes came with the state’s new emphasis on cultural sectors for economic growth. To support the reorientation, the newly established Ministry of Culture and Sports (MCS) in 1993 assumed the task of overseeing cultural industries as its major mandate.<sup>7</sup> The ministry identified itself as the promoter, not controller, of cultural industries. In 1994, the Cultural Industries Bureau (CIB) was installed under the MCS as the first bureau-level organization solely committed to cultural sectors. The CIB

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<sup>7</sup> The MCS was established after the MOC and the Ministry of Sports merged in 1993.

entailed four divisions to oversee the film, music, video, and publishing sectors as well as the newly-functioning Cultural Industries Planning Division (KCTPI 2005: 31-32). This regrouping of formerly separate divisions under the same umbrella of cultural industries and the addition of a policy planning function enabled a systemic and concerted effort across different cultural sectors at the ministerial level.

This organizational change was followed by new policy measures. First of all, the MCS initiated new legislations The Basic Law for Film Promotion was passed in 1995, providing an overarching guideline for government policy for the broadly defined “visual sector” [*yöngsang sanöp*], which included animation alongside motion pictures, television, multimedia, and gaming industries. Although the law lacked policy specificity and was more symbolic than practical (Paquet 2005: 44), it was a crucial signal of the government’s shifting approach to cultural industries: from control to promotion. This change in the policy environment surrounding cultural sectors became more obvious in 1996 when the pre-screening and censorship of films that had persisted for decades was finally ruled unconstitutional by Korea’s Constitutional Court (Paquet 2005: 44-46).

Specific policy measures were formed along two different directions, reflecting the complexity involved in the policy turn, which is discussed in the next section. On the one hand, the government liberalized the audio-visual sector to facilitate the entry of new capital, mostly chaebol. First, it granted a “manufacturing” status to the sector to



enable producers to claim a 20 percent tax break (Lent & Yu, 2001). Second, it issued a cable TV license for animation as well as several cable movie channels, which mostly wound up in the hands of the chaebol. The country's first animation channel, Tooniverse, was launched by a chaebol in 1995. Combined with a policy measure that freed the chaebol from financial and regulatory restrictions on investing in non-core businesses, these incentives gave many of the country's conglomerates a chance to enter into new growth sectors in the domestic market at the time when they were facing from a tough challenge in the global market.

On the other hand, the government focused on developing infrastructure for local cultural production. In animation, MCS played a key role in establishing the Seoul International Cartoon and Animation Festival (SICAF). The event was inaugurated in 1995 to encourage local animators and improve the public awareness of animation. The MCS provided key funding for the event for its first several years before the Seoul municipal government took over the role (Author's interview, Jun. 23, 2008). Also to prevent the domination of imported animation and ensure the airing of more indigenous animation, the government put a 30-percent cap on foreign animations in Tooniverse's programming (Lent and Yu 2001: 93). Regardless of their effectiveness, these new policies show a marked contrast from the ones in the preceding period. The state that had denounced animation as a social evil now promoted it as a cultural industry and began to impose measures to protect local animation from imports.

### 6.3.2 Globalization and Changing State-Business Relations

This major shift in the state's approach to cultural industries was a confluence of two fundamental socio-economic changes in Korea since the late 1980s: globalization and changing state-chaebol relations.

On the one hand, the changes came from outside, that is, globalization challenges. Beginning in the early 1990s, Korea realized its underdeveloped domestic cultural sectors were under growing pressure for market liberalization. The United States, which faced a growing trade deficit in manufacturing imports from Asia in the late 1980s, pressed hard for Korea to open its service sectors to foreign companies, threatening potential trade retaliation on Korea's major manufacturing exports, such as automobiles and electronics. In 1988, Korea finally agreed to open several key service sectors to foreign investment, including film distribution, despite fierce opposition from local producers (Paquet 2005).

The pressure for market opening did not stop at a bilateral trade negotiation. Amid the rising neoliberal tide in the global economy, the Uruguay Round, multilateral trade negotiations since 1986 under the GATT system, and mounting pressures toward lowering trade barriers put Korea's hitherto successful development strategy to a serious test. Keeping the domestic market closed would imperil its export-driven strategy in a changing international trade regime. In fact, Uruguay Round negotiations made little immediate progress on liberalization of the audiovisual sectors (Miller 1996).

Korean policymakers, however, came to realize that neoliberal pressure would not reduce but rather increase in the ensuing WTO system, and, as shown in their negotiations with the United States, export growth in major advanced markets, still vital to the Korean economy and chaebol, would be no longer possible without opening up domestic markets for agriculture and services, including the audiovisual sectors, to foreign investors. This recognition suddenly made the building of competitive local cultural sectors an urgent task for policymakers.<sup>8</sup> And channeling domestic capital, particularly large firms, to those sectors and strengthening infrastructure were considered critical to defend local markets against foreign capital.

In addition to these challenges from the global economy, the Korean state was facing new situations at home. Following decades of military dictatorship, democratic transition began in 1987 (Kim 2000). The state could no longer exert a tight-fisted control as it had done over civil society and the media in particular as it began to be challenged by various social forces, such as labor unions and NGOs. The most significant change in state-society relations, though, occurred between the state and the chaebol, the two crucial partners of the state-led economic development alliance of the past decades (Kim 1997). Rapid economic growth and gradual financial deregulation over the 1980s had

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<sup>8</sup> The urgency was not groundless; in 1993, local films recorded their lowest attendance ever with only a 16 per cent of the total box office gross in the face of the influx of Hollywood movies, which had been distributed directly by the major U.S. studios since the market opening to foreign distributors in 1988 (Paquet 2005: 32).

empowered the family-based conglomerates, and with their declining reliance on the state's financial support, they became increasingly assertive vis-à-vis the state's policy, particularly efforts to rein in the concentration of economic power in the chaebol. This led to a series of unusually intense, public confrontations over economic and industrial policy between the chaebol and the state throughout the Roh Tae-woo government (1988-1993). It ended up confirming that the state no longer had a power to direct the chaebol as it had been able to in the past (Kim 1999).

Recognizing these challenges from outside and at home, the incoming government of Kim Young-sam (1993-1998), the first civilian president in over three decades, changed the course of existing economic policy by dismantling the focal agency of the state-led development era, EPB, in 1994, and repackaging the Seventh Five-Year Social and Economic Development Plan (1992-1996), the last one of this kind, into the New Economy Policy to erase a trace of state-led economic planning. These moves aimed to limit the role of the state in the economy vis-à-vis the private sector, particularly chaebol. At the same time, the new administration pushed the rapid liberalization and internationalization of the Korean economy under its own globalization drive (Shin 2005).

In this context, market liberalization in cultural sectors had multiple purposes, from the state's perspective, in response to both external and internal challenges. First, by opening the sectors to foreigners, it was expected to relieve the country of some of the

trade pressures from outside as well as to reduce the concerns among local manufacturers about potential trade retaliation. Secondly, it aimed to accommodate some of the chaebol's demands, such as deregulation in service sectors. In fact, new cable channel licenses were considered as a "golden goose" among the business community, and the bidding generated a heated competition, including political lobbying, among chaebol. Finally, by attracting large domestic conglomerates into cultural sectors, the state expected that it could bring competitive conditions into the domestic market against the growing presence of outsized foreign media giants. With the market left to domestic and foreign capital, the state was largely relegated to the role of building human and institutional infrastructure to support the sectors.

### **6.3.3 The State, Chaebol and the Animation Industry**

The policy turn by the state had significant implications for the external linkages and the internal structure of the Korean animation industry.

First, opening the domestic market to foreign cultural products and investment deepened Korea's position as the consumption node of foreign products. The inflow of foreign animation was accelerated by the worldwide success of Disney's animated features in the 1990s, such as *Beauty and the Beast* (1991), *Aladdin* (1992), and *The Lion King* (1994). These were well received by Korean viewers, who began to appreciate the genre as family entertainment. For policymakers and corporate executives, their success

indicated the threat of foreign cultural products, but at the same time, they highlighted the economic potential of audiovisual products like Disney animation. Therefore, a news story that profits from the Hollywood blockbuster *Jurassic Park* (1993) were equivalent to the exports of 1.5 million cars by Hyundai, the leading national automaker, continued to be circulated in the media, providing a catchy rationale with policymakers to highlight the economic benefit of cultural industries, or “soft” industries, and reorient the country’s focus of industrial policy away from “hard” manufacturing sectors that had been the backbone of Korea’s economic growth.<sup>9</sup>

Animation drew immediate attention from policymakers in MCS, who were looking for a cultural sector with significant economic potential because the sector already had shown an impressive track record in exports. By the mid-1990s, Korea was the one of the world’s major animation exporting countries, and thanks to fast-growing offshore outsourcing exports, animation alone accounted for over 90 percent of Korea’s still meager audiovisual exports.

Offshore animation outsourcing, however, failed to grab any lasting interest from policymakers and the chaebol. Put simply, for them, the goal was to be able to compete with, not work for, Disney as many Korean studios had been doing. The

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<sup>9</sup> This comparative figure presented to President Kim Young-sam in May 1994 in the Presidential Advisory Council on Science and Technology were widely publicized by the media afterwards and constantly reemerged whenever the economic potential of cultural industries was stressed (Shin 2005: 53).

outsourcing model did not fit the direction of state policy that aimed to upgrade the country's industry structure into high value-added industries. In the eyes of policymakers, animation outsourcing exports appeared to be too labor-intensive with little backward or forward linkages and associated effects in overall cultural industries.

This point was eloquently made by an MCS official as follows:

“The cartoon industry is a high value-added business which heavily affects other businesses such as video and computer games and records, character products, advertisement and even tourism. ... If drastic change is not taken, the domestic industry may fall to the state of permanent subcontractor for foreign major companies and eventually drop out of the competition altogether, just like the shoe and textile industries in the 1980s” (quoted in Lent and Yu 2001:93).

Also, chaebol found itself grown too big to be attracted to such a small export sector as animation, whose exports were just \$62 million in 1993, when a single chaebol was able to invest \$300 million to an upstart Hollywood studio.<sup>10</sup> This assessment has continued the state's disengagement in animation outsourcing, although it did not deter the rapid growth of outsourcing-based exports over the 1990s.

Barring the option of offshore outsourcing, when it comes to reorganizing domestic animation production, the state found itself with limited choices. In a new domestic political economy, where the state was forced to stay away from directing chaebol into certain sectors, the government's role was limited to provide the best

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<sup>10</sup> Cheil Jedang (now CJ Group) invested \$300 million in 1995 in DreamWorks SKG to acquire 11 per cent of the Hollywood animation studio's share.

available incentives for chaebol to come into cultural sectors, which translated into more market liberalization. Most of the tasks of strengthening local cultural industries were left to the chaebol, with the government focusing on enacting regulations and building infrastructure, such as human resources.

For infrastructure building, the challenge lay in the fact that there had been no state-industry interface. As noted above, control-based cultural policies of the past decades had made such embedded links unnecessary; when the state needed such a linkage, it could build one. In response to government efforts to find a counterpart to work with, a producer association, the Korean Animation Producers Association (KAPA), was established in 1994 for the first time. The initial role it assumed was to organize the government-funded SICAF event in the following year.

The linkage between the state and local animation studios, however, were not firmly established for several reasons. First, most of the KAPA members were offshore outsourcing studios and their main interest was getting lucrative orders from foreign buyers rather than producing their own animation. The continuing expansion of outsourcing exports throughout the 1990s reduced the incentive for those studios to actively engage in government policy that was in favor of local animation production. In addition to this difference in strategic direction with the state, local producers themselves were largely fragmented. The fact that they were competing for foreign orders made all of them potentially mutual competitors (Vallas 1997), reducing the



chance to act collectively. The studios were also divided between U.S. and Japanese chains, as discussed in Chapter 5. They were different not only in their size and end markets, but also their major concerns. Even when KAPA was putting together its own list of policy demands to the government, the two supplier groups could not agree with each other, voicing their differences (Author's interview, Mar. 17, 2009).

In this transitional juncture, in sum, globalization pressures did not automatically lead to the retreat of the Korean developmental state on every front. In cultural industries, the external influence of liberalization made significant inroads in the domestic audiovisual market, but at the same time, it energized the demand to build strong domestic cultural sectors to compete with foreign firms. The course of action taken by the state, however, was shaped by changing state-chaebol relations. Despite the critical role of the state in the cultural policy turn from control to promotion, the shifting power balance in favor of chaebol left many of the tasks of building local cultural industries to the chaebol. The state's engagement with local animation producers remained limited because of the dominance of offshore outsourcing among local studios. This state-industry structure began to face challenges, though, as the country was inching toward its worst economic crisis in the postwar period.

## **6.4 Riding on Globalization by Exporting Animation: 1999 to the Present**

### **6.4.1 The Economic Crisis and Reorienting Cultural Industry Policy**

Korea's attempt to confront the wave of globalization on the shoulders of the chaebol ended abruptly as it confronted the economic crisis in 1997-1998. Just as with trade and financial liberalization of a decade earlier, the economic crisis once again significantly transformed the Korean political economy.

Its immediate impact on cultural industries was the retreat of the chaebol. Pressured by the IMF and the Korean government to restructure their businesses and concentrate on core areas, many chaebol, including Samsung, Daewoo and SKC, disinvested from audio-visual sectors. This ended a booming era of investment since the early 1990s. Although their post-crisis exits were not entirely unexpected because some of them were under pressure even before the crisis for their poor performance (Paquet 2005: 42-43), these moves made it clear that the chaebol could no longer be the major investors in cultural industries. The impact of the withdrawal was less on animation than on film because of their relatively lower interest in animation. The bigger effect of this withdrawal was the reorientation of the state's overall industry policy.

For the new administration inaugurated amid the crisis and led by Kim Dae-jung (1998-2003), the first elected Korean President from the opposition party, one of the immediate tasks was to rekindle exports to replenish the foreign reserves depleted

during the crisis. The government pressed its export drive hard, and accelerated the country's industrial transformation into knowledge-intensive sectors with its emphasis on IT, telecommunications and cultural products. In this transformation, it quickly became clear that the state could no longer completely fall back on the chaebol. Not only did many chaebol that survived the crisis scale down under financial pressure, but they also were blamed for the pre-crisis investment bandwagon using cheap credit into non-profitable business, which many believed to be one of the major causes of the crisis.

Thus, the new administration turned its attention to start-ups and venture capital in its post-crisis recovery and restructuring plan. A series of government policies ignited a start-up boom (dubbed "*ch'angŏpbum*"), combined with the rise of KOSDAQ, a NASDAQ-like local stock market focusing on start-ups. High unemployment rates and the increase of spin-offs from the chaebol as a result of post-crisis restructuring also fueled the influx of qualified businesspeople and engineers into start-ups in non-manufacturing sectors, including cultural sectors. This shift away from chaebol-based cultural industry policy, pressed by the economic crisis, toward SME-based engagement has changed the role of the state in cultural industries.

#### **6.4.2 Value Chain-based Industrial Policy**

On top of the broad, functional state support programs for start-ups after the economic crisis, the state elaborated its industry-specific industrial policies for

animation and cultural industries. Backed by a growing public support for the state to jumpstart the crippled economy (Kalinowski 2008), the government initiated a series of new policies for boosting the export potential of local cultural producers.

First, it strengthened the institutional foundation of cultural industry policy with the enactment of the Basic Law for Cultural Industry Promotion in 1999. Compared to the 1995 law, this law expanded the scope of government support from the film sector to the entire set of cultural industries. It also mandated the MCT to formulate five-year development plans not only for the entire industry but also for major sub-sectors to outline policy goals and specific support measures.<sup>11</sup> The first five-year plan for animation was announced in 2001. This sectoral and sub-sectoral planning was assisted by an effort to collect industry-level statistics. The official survey of cultural industries by the government was first conducted in 1999, and annual sectoral surveys have followed since then.

Second, in animation, government policy pinpointed the two major bottlenecks in the value chain for local producers: financing and distribution. Small studios tend to lack financial resources and distributional channels necessary to produce and market their original animation. To help finance local cultural production, the MCT established the CIPF in 1999 with a 50 billion won (\$42 million) of government seed contribution. By

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<sup>11</sup> Since 2008, the MCT changed its name to the Ministry of Culture, Sports, and Tourism (MCST).

2004, the government had contributed 250 billion won (\$218 million) in total, and combined with other public funds, the CIPF reached 301 billion won (\$263 million).<sup>12</sup> It is used to support a wide range of business activities, including product development and overseas marketing as well as cultural start-ups. Animation was the biggest beneficiary of the Fund's loan program, representing 21 percent of the total amount loaned to local firms for cultural product development in 1999-2003 (Pak and Nam 2003: 3-5, 8). The ministry has also invested in special funds targeting cultural content projects. These public-private joint funds are mandated to allocate the majority of their investment to cultural industries. Private venture capital companies take responsibility for administering the funds, and the selection of which firms or projects to invest in is also made by private investment specialists. By 2004, 14 special funds of this kind had been set up with a total of 185 billion won, and 43 billion won was invested in 31 different animation projects in 2002-2005, representing 30 per cent of the fund available for animation (MCST/KOCCA 2008: 7).

The other frequently noted obstacle for local firms is overseas distribution. Distribution in the global market is generally controlled by a few big broadcasters and distributors, and many of the Korean studios have little experience in overseas sales and marketing. Early experiences underlined the importance of the home market in overseas

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<sup>12</sup> The dollar amounts are converted using U.S. Federal Reserve Annual Foreign Exchange Rates (<http://www.federalreserve.gov/releases/g5a/>); US \$1 = 1,190 KR won (1999); US \$1 = 1,145 KR won (2004).

sales. A success at home, they learned, is critical for global sales because it bolsters the confidence of foreign buyers in the quality of the product (Author's interview, Feb. 13, 2009).

This renewed local producers' interest in redressing the local distribution system that was long dominated by imported animation. The industry demanded from the government a quota system on television for local animation. After a long debate between stakeholders, the quota system was installed in 2005 to mandate national TV broadcasters to allocate a certain amount of their airtime to newly produced local animation (MCT 2007). In addition, to assist local producers in overseas sales and marketing, the KOCCA (see below) opened overseas offices in Japan, China, United States, and Europe in 2001-2003. The government-funded support agency provides a subsidy to local firms participating in major international media market events, such as MIP-TV and MIPCOM. It also established a Korean pavilion in such events to promote the collective presence of Korean animation (MCST/KOCCA 2008: 30-31).

Finally, the Korean government facilitated the partnering of Korean animation studios with foreign producers. International coproduction has increasingly been considered an effective path of upgrading to address financial and distribution challenges in bringing Korean animation abroad (see Section 5.3). In collaborating with foreign creators, producers and distributors through cross-national, joint-production projects, Korean firms are expected to tap into foreign partners' financial resources and

sales and distribution networks, and to shore up their weaknesses, such as creative development and pre-production, in exchange for bringing strong production skills to the table. Although many of the early coproduction arrangements were explored and initiated by local producers, the government played a key role in the country's growing presence in the global coproduction market. It signed an international coproduction treaty with Canada for TV programs in 1995, and later with France (2006) and New Zealand (2008) (KOCCA 2009b). These arrangements helped give Korean firms an advantage over competitors in seeking for a coproduction partnership with firms from those countries. And this advantage has become strong in animation production and distribution as cross-national partnership is increasingly made by firms tied together through such treaties.

Reflecting the growing commitment of the state in cultural industries, as shown in Table 15, the budget of the CIB jumped from 2.2 per cent to 11.7 per cent of the MCT's total budget in 1999, and it has maintained the two-digit level while the actual amount almost doubled in 1999-2005 (Lee 2007: 226). The MCT budget grew from 0.97 per cent to 1.17 per cent of the total government budget during the same period (KCTPI 2005: 21).

**Table 15: Annual budgets of MCT and CIB, 1994-2005**

Year	MCT Budget (Billion Won)	% Government Budget	CIB Budget	% MCT Budget
1994	301.2	0.63%	5.4	1.8%
1995	383.8	0.68%	15.2	4.0%
1996	459.1	0.73%	18.9	4.1%
1997	653.1	0.91%	13.2	2.0%
1998	757.4	0.94%	16.8	2.2%
1999	856.3	0.97%	100.0	11.7%
2000	1,170.7	1.23%	178.7	15.3%
2001	1,243.1	1.17%	147.4	11.9%
2002	1,398.5	1.20%	195.8	14.0%
2003	1,486.4	1.29%	189.0	12.7%
2004	1,567.5	1.30%	172.5	11.0%
2005	1,585.6	1.17%	191.1	12.1%

Source: Lee (2007: 226)

In sum, compared to the previous phase, where the state's policy turn was more symbolic with limited support programs, the state policy for cultural industries since 1999 has become focused and customized to the needs of a specific sector, rather than retreat to more functional and sector-neutral policies. Now the state's action is focused on addressing key bottlenecks in the value chains for local producers exporting original animation. As discussed next, such a focused industrial policy requires a change in the state-industry interface in animation.

#### **6.4.3 Reorganizing Policy Networks and Re-embedding the State**

This increasingly elaborated support system for cultural industries has come with significant organizational changes within the state as well as between the state and the industry. Inside the government, the major organizational development was the



establishment of specialized support agencies. In 1999, a government-funded organization was set up to promote the gaming industry, and in 2001 another of that kind, the KOCCA, was established to support cultural-content industries, including animation (the two merged in 2009). The establishment of the KOCCA has generated a division of labor between the MCST, the ministry in charge of legislation, vision-setting, policymaking, regulations and industry oversight, and the KOCCA, whose focus is the implementation of policies set by the ministry. It allows the ministry to stay away from daily-based policy execution and intervention, while the KOCCA as a focal support agency can specialize in the operation of various government-funded support programs.<sup>13</sup>

In addition to support for financing and distribution as noted above, the KOCCA has developed a variety of programs aimed at nurturing the creative capabilities of local studios, which has become critical as the industry shifted from offshore outsourcing to original production. Each year, it supports up to 100 million won of production costs per project to approximately 20 pilot animation projects that have potential to attract foreign investors. It also funded selected animation studios working on original projects to reach

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<sup>13</sup> The division of labor between KOCCA and MCST can be understood from a few different angles. It might be an organizational response to the increase of government support programs as they have become customized and focused by subsectors, which otherwise might have put too much of a burden on the ministry. Or, it might be a leveling effort to reduce the government's direct influence on policy operations, which were often politicized and criticized, and leave the task outside the ministry and allow the KOCCA run the programs on a competitive basis.

full scale, from production costs, equipment and studio space to the project management consulting by specialists. Until the scheme phased out in 2008, 16 projects had received a total of 5.5 billion won of financial and logistical support, and some of them successfully secured foreign investors. Finally, the KOCCA runs professional training programs to foster specialists in domains where local firms are relatively weak in capabilities, such as creative development, pre-production and international marketing (MCST/KOCCA 2008: 20-25, 27-28).

Organizational changes have also come into the state-industry relation. A major development is the formation of a state-industry development alliance. Even after the establishment of the KAPA in 1994, the linkage between the state and the industry in the second phase had not worked well because the industry was largely dominated by offshore outsourcing suppliers and the government put emphasis on original animation production rather than work-for-hire projects for foreign studios. While the economic crisis and the retreat of the chaebol from cultural sectors reoriented the state's policy focus as shown above, the sudden demise of offshore outsourcing exports and the influx of new start-ups transformed the ecology of the industry as well as the leadership within the industry (Section 4.4).

Equipped with the original production model, this different breed of animation studios has been supported by government policies focusing start-ups that produce their own animation. At the same time, these new firms began to actively shape government

policies to their favor. For example, since 2001 these original producers and the KAPA had pressed the government and the national assembly to introduce a new TV quota system dedicated to local animation, which was finally established in 2005 (Author's interviews, Mar. 7 and Jul. 6, 2009). Considering the fact that offshore outsourcing firms have no reason to be interested in such a domestic quota system, this event shows how the industrial leadership within the KAPA has shifted to original animation producers.<sup>14</sup>

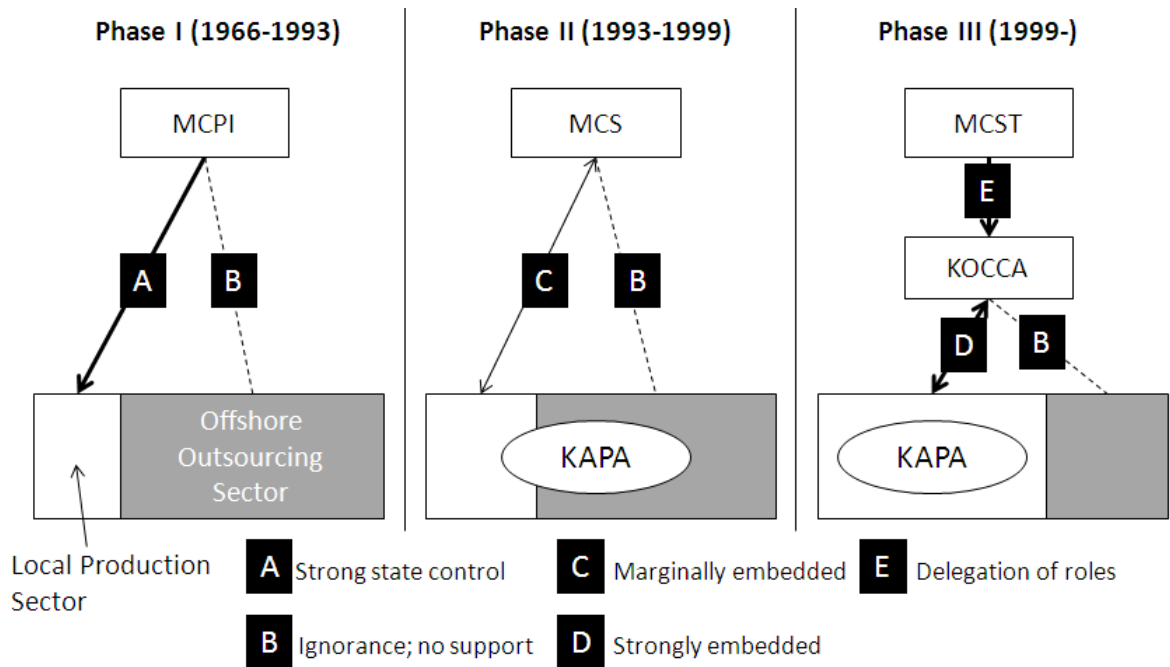
In the formation of such an embedded linkage, the KOCCA played a role as a sustained interface between the ministry and the industry. Many of the key figures from original producers were involved in the process of government policymaking and implementation. They are frequently invited as experts to the government's long-term planning sessions and as regular external reviewers for various KOCCA programs (Author's interview, July 6, 2009). The industry increasingly has been represented by this new generation of local producers. The KAPA, once dominated by offshore outsourcing suppliers, is now led by this new group, mainly representing the interest of original producers (Author's interview, Mar. 17, 2009). In this regard, a new export coalition between the state and the industry is built between the state, which is eager to promote the animation industry and cultural industries at large as a viable source of

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<sup>14</sup> There are, however, critics who point out that the quota system only forced the broadcasting companies to buy a larger number of relatively lower-quality, cheaper animation only to meet the quota requirements, therefore leading to the quality deterioration of local animation (Author's interview, Feb. 20, 2009B).

employment and exports, and the industry sector that focuses on the creation of original content for global markets. The economic crisis, shifts in government policy, and the collapse of offshore outsourcing exports realigned the state-business relationship and created an export-oriented development alliance in animation.

The new state-industry relation is illustrated in Figure 7, compared to those in the previous stages. The state's strong control over animation through censorship was replaced in the second phase by an initial effort to build an embedded linkage between the ministry and the newly established producer association. However, the linkage was not fully developed until a new group of original producers began to lead the industry, and KOCCA played the role of mediating the interaction process.



**Figure 7: The evolution of state-industry relations in Korean animation<sup>15</sup>**

In sum, this latest stage started with the economic crisis, and despite the neoliberal nature of the post-crisis structural adjustments, the crisis has propelled the state to hasten an industrial transition into a knowledge-based economy, as emphasized by the reconfiguration argument (Chu 2009; Wong 2004b). As observed in the post-crisis recovery (Kalinowski 2008), the Korean state, rather than leaving the transformation to market forces, took a hands-on approach with more comprehensive policy and organizational tools. Supportive programs have become sophisticated compared to the

<sup>15</sup> The share of the local production sector and the offshore outsourcing sector is only for an illustration of shifting influence within the industry, not for the reflection of actual revenue or exports of each sector.

preceding phases and focused on two critical dimensions of cultural value chains, showing the state's awareness of the importance of value chain dynamics in upgrading.

Efforts have been made to create a beneficial linkage between global chains and local chains, as exemplified by using the domestic market as a springboard for exports (e.g., the domestic animation quota system) and leveraging foreign resources to fund and market local projects (e.g., international coproduction). State intervention has coevolved with the changing ecology of the local industry, such as the decline of offshore outsourcing exports and the growth of start-ups. A development coalition has been built surrounding the new development strategy of export-oriented original production. Internally, more government resources have been distributed through the support systems built around the KOCCA, and many programs are implemented on a competitive basis and rely on the inputs from private sectors.<sup>16</sup> This resource allocation system has become the core of the new development strategy around which the coalition is built.<sup>17</sup>

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<sup>16</sup> There are, of course, the complaints that the current support system favors relatively big and established producers who are influential on government policy over less established start-ups (Author's interview, Feb. 20, 2009B).

<sup>17</sup> The notable absentees in this coalition are labor and the offshore outsourcing sector that, despite its shrunken size, continued to be the major suppliers to U.S. and Japanese animation firms.

## **6.5 Conclusions**

Taking the example of the Korean state and its intervention in the animation industry, this chapter has examined the question of whether the East Asian developmental state is in decline or in renewal in the face of globalization challenges. It has examined the evolution of development strategies, industrial policy and the social coalition surrounding the industry over the last four decades. Our findings support the reconfiguration argument that, at least in Korea, the developmental state is not in eclipse but reconfigured with a new mode of state intervention and a new developmental alliance.

First, the Korean case has suggested that development strategies and the role of the state are not solely affected by global forces. The transformation of the state is equally influenced by the dynamism of the domestic political economy. Though increasingly tied to the global political and economic system, it is a critical basis for establishing a distinctive developmental path. The choice of the Korean state to move from policing local animation with no supportive measures for exports or domestic production to chaebol-oriented promotion, and finally to a developmental model based on SMEs, cannot be explained without the changing relationship between the state and the chaebol.

While economic globalization provided a crucial backdrop to this transition, the Korean state played a significant role in response to globalization challenges by

articulating the vision and goal of industrial transformation into a knowledge- and creativity-based economy (Chu 2009). Particularly, in the third and latest phase, the state offered numerous government programs in its attempt to alter the opportunity structure of the market in the face of globalization and prod local firms to go overseas and compete for the sales of original production, not for labor-intensive outsourcing orders.<sup>18</sup> This may not a big leadership, in Wade's (1990) term, as was found in the old Korean developmental state, but still significantly big enough to "tip the balance" (Ellison and Gereffi 1990: 381-382). And it is certainly not followership, where local firms "do what they want to do regardless it is supported or not."

Second, this study has found the increase, not decrease, of sector-specific industrial policy, particularly after the economic crisis of the late 1990s, refuting the argument of the Korean state transforming into a neoliberal or regulatory state. As the entrenchment argument suggests, state-led, export-oriented development strategies were revived after the crisis. The developmental state and industrial policy have not been in decline, but rather were bolstered and expanded in the face of growing competitive pressure on Korean firms at home and abroad and the need of export growth for recovery (Kalinowski 2008).

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<sup>18</sup> Forcing local producers to pursue upgrading goals has been a central theme for the Korean developmental state (Chang 2006; Amsden 1989).



However, the way such policy was devised and implemented has not been the same as in the past, which supports the reconfiguration perspective. First, industrial policy has been narrowly focused at the sectoral level and strategically engaged in certain nodes within animation value chains. State policy has been customized for cultural industries and each sub-sector, as exemplified by long-term policy plans and specific measures dedicated to animation. Second, state intervention takes on diverse forms in the different nodes of these value chains; policy support was concentrated on two major bottlenecks for local producers, i.e., financing and distribution, while the production mode was left to private producers. Finally, within those focal areas, the state has not solely relied on government programs but used a mixture of government-sponsored and private-partnered programs. The promotion fund program for cultural industries, the CIPF, is complemented by public-private joint investment funds managed by the private sector. For distribution, regulatory measures such as the animation quota system and international coproduction treaties have been accompanied by various programs to encourage and support local firms' exposure to global media markets.

Third, the organizational dimension of the Korean developmental state has been reconfigured as well. Since its engagement with the animation industry, the state has pursued a state-industry partnership to support its developmental goals. However, the offshore outsourcing sector could not be an option given the state's emphasis on original

production and upgrading. The state's chaebol-oriented response to globalization in the second phase was unsustainable after the economic crisis, shifting its attention to creativity-minded SMEs in the latest phase. The process of searching and building the relationship has been less straightforward than evolutionary, based on trials and errors as well as reflecting evolving structural conditions.

Another feature to note is the delegation of daily-based policy implementation to para-governmental intermediaries like the KOCCA. This delegation of policy execution has facilitated the increase of more focused support programs as well as a close and sustained interaction with the industry. Overall, this organizational change has led to the construction of a new developmental alliance based on original animation exports and the re-embedding of the state in specialized support agencies and new policy constituencies among export-oriented SMEs, which is missing in the existing reconfiguration literature.

All these findings allow us to reach a conclusion that in the face of challenges from globalization and shifting domestic political-economic relations, the Korean developmental state has renewed its midwifery and husbandry roles (Evans 1995: 71-81) by strategically engaging in new sectors like animation and cultural industries at large, and encouraging and supporting a set of local firms to conduct certain types of production and investment activities. This reorientation has been facilitated by the state's effort to disembed itself from its increasingly complicated relationship with the

chaebol and re-embed itself in intermediary organizations and a new sectoral developmental alliance.

## **7. GLOBALIZATION AND THE ANIMATION INDUSTRY IN INDIA**

### ***7.1 Introduction***

The previous chapters have examined the historical evolution of the Korean animation industry in the face of globalization waves from three different perspectives: the shift of the overall development mode, the variation among different GVCs, and the role of the state.

Before heading into a final conclusion, this chapter provides a mini-comparative stop. It examines how globalization unfolded in the development of the animation industry in India. The goal of this comparative exercise lies in reflecting the Korean case against the mirror of the Indian experience to primarily highlight the specificity of Korea's case, but also to unearth some commonalities across the cases that could tell us about globalization and the structure of global cultural industries. Without pretending to be a full-fledged empirical chapter on the Indian animation industry, this comparison focuses on three theoretical themes presented in Chapter 2 and related empirical findings presented in the ensuing chapters.

### ***7.2 Globalization and the Animation Industry in India***

The animation industry in India has evolved through three distinctive phases in terms of its relation with global production networks. For the post-war period up to the mid-1990s, most of animation work was produced for public use by state-sponsored

institutions. Under this state-led, domestic audience-oriented development system, the industry had no significant commercial linkage to global animation production. The second stage began to unfold in the mid-1990s as foreign studios explored offshore outsourcing to Indian animators. The integration of India to global animation production networks took a quick step in the early 2000s as the inflow of outsourcing work rapidly increased. During this third stage, a full-blown offshore outsourcing model has gradually overlapped with upgrading efforts for original animation production.

This section examines how globalization has affected the Indian animation industry over the process, posing opportunities and constraints distinctive from ones in Korea.

### **7.2.1 From Suspended Animation to Global Integration: 1995 – 2000**

Offshore outsourcing played a critical role in India in the emergence of the commercial animation sector, as shown in the Korean case (Section 4.2). For much of the post-war period until the mid-1990s, most animation work in India was produced for public consumption with little commercial concern. This is closely related to the early interest of the Indian government in using animation in education and propaganda (see below in Section 7.4). The Cartoon Film Unit (CFU) under the government-run Films Division, founded in 1956, trained Indian animators, some of whom later rose to

prominent positions in the industry.<sup>1</sup> During the 1970s and 1980s, many animated films were produced in the National Institute of Design (NID), another prominent institution for training animators, most of which were about educational and socio-developmental themes, such as road safety, family planning, and dowry (Kenyon 2001).

This does not imply the complete isolation of Indian animation from the outside world at this period. In fact, the CFU of its early years invited the ex-Disney animator Claire Weeks to train its animators, and the structure of the CFU was modeled after the Disney studio (Author's interview, May 29, 2009A). Foreign animators were also invited to the NID during the 1970s to teach Indians, and NID's faculty members were sent abroad for advanced training (Sen 1999). However, this does suggest that a linkage to the outside was largely handled by the state and state-run institutions, not by foreign buyers and local suppliers as in Korea. As a result, while Korean animators were hired and trained for foreign commercial projects, the Indians were tightly connected to state projects with limited interface with global production networks.<sup>2</sup>

This state-centered development in India did not lead to the establishment of a commercial animation sector. Non-public demand for animation largely came from TV

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<sup>1</sup> The establishment of the CFU was supported by a technical aid program by the U.S. government. The program allowed for the introduction of animation cameras to India as well as skill training by Claire Weeks (Kotasthane 2005).

<sup>2</sup> Unlike Korea, training at the CFU focused on creative development, such as making storyboards and designing characters, not what would be needed for foreign outsourced projects, such as inking and painting (Kotasthane 2005).

commercials. While some ex-CFU members set up commercial studios to produce animated ads, they never grew big enough to handle a TV series or theatrical feature.<sup>3</sup> According to Ram Mohan, one of the pioneering animators in the earliest Indian animation, his studio, Ram Mohan Biographics, which was established in 1972, had hardly gotten bigger than 20-25 artists until 1997, when it started offshore outsourcing (Kotasthane 2005). Public projects were also not sufficient to churn out skilled animators. For much of this period, the CFU produced approximately four animated short films per year (5-10 minutes in length) with around 15 to 20 staff members in total (Author's interview, May 29, 2009A).<sup>4</sup>

This industrial dynamic began to change as outsourcing work flowed in, beginning in the mid-1990s. In this second stage, foreign studios began to consider sending their work to India, and Indian producers took notice of it. For example, Silicon Graphics established a digital imaging center and a training center in 1996 with

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<sup>3</sup> This is, in part, related to the nature of ad production, which demands a small group of highly creative staff and production capacity in high-quality but low volume sums, given that commercial ads are generally short in length (Author's interview, Jun. 3, 2009A).

<sup>4</sup> In 1993, the leading Korean outsourcing supplier Seyoung alone produced 120 TV animation episodes (see Table 10 in Chapter 4). Suppose all of them were a 20-min show (30 min minus 10 min advertising), it amounted to 2,400 hours of animation per year. As the Film Division has begun contract more public projects out to private studios, the CFU has added no new staff member for the last 10 years. There were around 15 animators working for the CFU as of 2009 (Author's interview, May 29, 2009A).

Pentafour Software (renamed Pentamedia Graphics in 2000<sup>5</sup>), one of the pioneering studios in India for offshore animation outsourcing (Business Line 1996).<sup>6</sup> In 1997, Ram Mohan established RM-USL (later renamed UTV Toons) with UTV Software Communications, the country's leading post-production studio, to enter this growing outsourcing market. Toonz Animation was set up in 1999 by a non-resident Indian family and two Americans to work on 2-D animation for U.S. studios. Crest Communication joined the market based its expertise in 3-D commercials. These firms formed the earliest group of animation studios to explore the emerging offshore outsourcing market in India (Author's interviews, May 18, 26A and 28, 2009).

In this early integration, Indian animation studios confronted a dearth of animation workforce and a lack of experience. A scarcity of animators, be they skilled or not, was the biggest challenge. Ram Mohan's interview shows the mismatch between the buyer's needs and his studio's reality at that time:

"We didn't have a problem getting work [from U.S. studios]... But then we realized that we did not have enough animators... we have a core group of 25 people [from Ram Mohan Biographics]. But that was not enough to take up works for continuous outsourced work. We needed a much larger set up" (Kotasthane 2005).

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<sup>5</sup> <http://www.penta-media.com/About.html>; it is said that Pentafour catered to Japanese studios as well as South Asian film studios with 2,000-3,500 employees at its peak before it entered into sudden hibernation (Author's interviews, Jun. 18, 2009A and Jun. 23, 2009).

<sup>6</sup> According to a news report, Silicon Graphics even invited overseas film studios to contract out some special effects work to India to boost their hardware and software sales in the Subcontinent (Asia Pulse 1997).



Given the Korean experience with U.S. studios, it is hardly surprising that such a small group was not enough to handle the kind of work farmed out from U.S. studios. In the face of skill shortages, Indian studios rapidly increased their hiring and quickly built up their internal training program such that RM-USL reached a staff strength of 450 animators at its peak (Kotasthane 2005). Also, they realized that skills at computer graphic techniques and ad-making were not enough to handle animation production, which involves creating a long-format story and designing characters (Author's interview, May 28, 2009). To make up for no experience in 2-D animation, some studios invited animators from the Philippines, a country known for 2-D animation outsourcing (Author's interview, May 19, 2009).

At this initial integration stage, much of India's comparative advantage lied in low wages. Annual salaries for Indian animators, for instance, range from \$3,500 to \$30,000, only 10 to 30 per cent of what their Hollywood counterparts and 70 per cent of what their Korean peers are paid (Adiga 2004; Raugust 2004). By then, computer animation was just emerging in the wake of the success of *Toy Story* in 1995. Some studios like Toonz and RM-USL tried 2-D, and others like Crest experimented with 3-D animation. The U.S. market, as in India's other outsourcing exports, emerged as the main destination for Indian studios (NASSCOM 2007: 35).

In short, the exploration of offshore animation outsourcing in India both by foreign buyers and Indian producers led to the rise of a new development path in the mid-1990s, distinctive from the state-led animation production of the previous phase. India quickly built up its industrial base for commercial animation production for exports.

### **7.2.2 Animation as the “Next Big Thing”: 2001 to the Present**

In the early 2000s and onward, the Indian animation industry began to witness the rising inflows of foreign outsourcing orders. Several factors affected this growth trend. First, foreign firms’ overall confidence in Indian contractors had gone up in offshore outsourcing. Many Y2K projects were outsourced to India in the late 1990s, and Indian firms showed their ability to handle such large projects from afar. Second, in animation, the growth of 3-D animation and the rising use of visual effects in live-action films increased the demand for producers to take on such projects with reduced costs. India’s known strength in computer and software skills in particular helped the country appeal to foreign clients seeking for a place to make a high-quality, low-cost CG animation. It was estimated that Indian studios can produce a high-quality 30-minute 3-D animation episode with a cost of \$70,000 to \$100,000, compared to \$170,000 to \$250,000 in the United States (Adiga 2004).

As a result, the animation outsourcing industry grew fast. The size of the industry doubled, from 10 billion Indian Rupee (US\$ 227 million) in 2005 to 20 billion (\$413 million) in 2009, according to an industry report (FICCI & KPMG 2010: 4).<sup>7</sup> While this growth was certainly not as fast as the industry had expected to post in 2005,<sup>8</sup> the animation sector recorded a solid above average growth in India's growing media and entertainment (M&E) industry. Animation's 18 per cent compound annual growth rate (CAGR) in 2006-2009 was higher than the 10 per cent sectoral average of the M&E as well as those of other major sub-sectors, like films (5 per cent) and television (12 per cent) (FICCI & KPMG 2010: 4).<sup>9</sup>

With the fast growth of offshore outsourcing business, animation studios seeking for-hire overseas projects sprouted up throughout the country. In 2004, it was estimated that at least 70 studios were in operation (Adiga 2004); an industry report in 2007 approximated that there were 300 studios across India with more than 12,000 animation artists and professionals (NASSCOM 2007), indicating the rapid expansion of the sector and workforce in a very short period of time.<sup>10</sup> Many animation studios opened in

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<sup>7</sup> Offshore outsourcing accounted for 70 per cent of industry revenue (NASSCOM 2007).

<sup>8</sup> An industry report expected in 2005 that the size of Indian animation production would grow to \$950 million in 2009 (NASSCOM 2006).

<sup>9</sup> The animation sector still remains small, consisting of only 3.4 per cent of the entire M&E industry in terms of market revenue (FICCI & KPMG 2010: 4).

<sup>10</sup> The editor of an animation trade website in India estimated 450 studios in operation across India (Author's interview, May 29, 2009B).

Mumbai, the center of Bollywood, and others in Hyderabad, Bengaluru, Pune, Chennai, and Trivandrum.<sup>11</sup>

With the industry expanding, its concern has gradually shifted from the number of animators to the quality of their skill sets as well as that of private training programs, the major supply source of new animators (Author's interview, Jun. 2, 2010). By the mid-2000s, the fast growth deepened the concern about a shortage of skilled animators (NASSCOM 2007), making "poaching" among studios prevalent. However, the influx of new animators trained in mushrooming private animation institutes and the set-up by many major studios of their own training academies appeared to relieve such concerns by the early 2009.<sup>12</sup> As the global recession was setting in and offshore outsourcing in India was slowing down, some of my interviewees expressed their worry about a potential oversupply of animators at the entry level (Author's interview, May 30, 2009).

As the export-oriented mode of development based on offshore outsourcing intensified, many Indian studios strategically chose to focus on 3-D computer animation

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<sup>11</sup> Unlike the film industry in India characterized by regional difference in language and cinema culture: among others, Mumbai's Hindi films, Hyderabad's Telugu films and Tamil films based in the state of Tamil Nadu, animation exhibits relatively little internal difference between regions and cities, although Mumbai and Hyderabad are the two largest clusters of animation production. Animation is generally produced for pan-Indian audience rather than regional audience (Author's interview, Jun. 4, 2009B).

<sup>12</sup> Private animator training has become a big business in itself as animation rose to the next big job opportunity among the Indian young for the country's outsourcing sector. Major animation studios have established their own training facilities not only to secure the stable inflow of new animators but also to help their cash flow. For example, one of the major studios generated 70 per cent of its revenue from its animator education program (Author's interview, Jun. 12, 2009).

over 2-D hand-drawn animation. This choice was based on several factors. First, 3-D computer animation was expanding its share in animation markets following its initial launch in the late 1990s (see Section 3.3). Second, Indian studios found a relatively smaller skills gap with Western firms in 3-D animation (3-5 years behind) than in 2-D animation. Unlike in 3-D, whose outsourcing market was just budding, they had to compete in already saturated 2-D markets with incumbents from Korea, Taiwan and the Philippines. Finally, the fact that 3-D animation is technology-wise close to computer software and engineering, where India is considered to have a comparative advantage, has made many Indian studios (some of which also involve in IT software outsourcing) inclined to computer animation.<sup>13</sup> As a result, the Indian animation industry is now predominantly populated with 3-D computer animation studios, as compared to a more mixed presence of 2-D and 3-D studios in Korea.

Another distinctive development in India's animation at this stage, compared to Korea's experience, is the significant interest in animation from big domestic conglomerates and foreign investors. For instance, Tata Elxsi, a part of Tata Group, one of the major Indian conglomerates, has joined offshore outsourcing since 2002, focusing

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<sup>13</sup> It is said that animators in India tend to prefer being trained for 3-D than 2-D. While 3-D training prepare them not only for animators but also for computer software and engineering jobs, which many Indian people aspire to have (their parents, too), the 2-D animator is considered as an artistic job, which is still not popular in India. The Managing Director of an animation school told me in an interview that many students in his school prefer to receive a Bachelor of Science (BSc) than a Bachelor of Arts (BA) at graduation (Author's interview, May 5, 2009).

on animation and visual effects, after a decade of business in computer graphic design for post-production for domestic films and commercials. BIG Animation, a wholly-owned subsidiary of Reliance ADA Group, another major conglomerate, acquired Aniright in 2005 to become one of the major animation studios in India with over 300 full-time employees.<sup>14</sup>

Also notable is the presence of foreign investors. Eyeing the potential of India's fast-growing domestic media market, major global children's TV networks now have a significant presence in India. For example, Disney acquired the local 24-hour kids channel Hungama TV from UTV Software in 2006. Disney has retained the Hungama brand to complement its global brands, Disney Channel and Disney XD (Business Standard 2006).<sup>15</sup> As discussed below, these U.S. channels have increased the content from India and Asia over the last five years as they found their library content from the United States not enough to appeal to the local audience (Author's interviews, Jun. 4,

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<sup>14</sup> Reliance BIG Entertainment has an extensive line of business in media and entertainment, including TV and radio broadcasting, film studios, and movie multiplex chains. In 2008, the Reliance ADA Group invested about \$500 million in a new partnership with DreamWorks valued at \$1.2 billion. Note that DreamWorks Animation is a separate publicly held studio, spun off in 2004 from DreamWorks (Dobuzinskis 2008). Reliance was also reported to be interested in acquiring another Hollywood studio, Metro-Goldwyn-Mayer (Sharma 2010).

<sup>15</sup> Disney's channels in India are differentiated for specific viewing groups; for example, Disney Channel is largely aimed at elder girls; Disney XD (formerly Jetix) runs action-oriented properties for boys; and Hungama TV airs gender-neutral programs targeting younger kids, which include Japanese popular TV anime (non-Disney properties), such as *Shinchan* and *Doraemon* (Author's interview, Jun. 4, 2009A).

2009A).<sup>16</sup> In production, Thomson's Technicolor, a French visual content production service provider, acquired Paprikaas Interactive, a Bangalore-based, 3-D outsourcing studio in 2007 (Birnur 2007).

Alongside the rapid growth of offshore exports in animation, some studios began to try to upgrade into a so-called "intellectual property (IP) model," as opposed to a "service model" referring to offshore outsourcing. It is a business strategy to generate revenues from the rights of original content through either sole production or co-production. Unlike in Korea, where the original production model has risen a few decades after offshore outsourcing began, in India it occurred in less than a decade. While some studios tried to create their own animation in the early 2000s (Sinha 2003), the momentum for the new development model came from the unexpected success of *Hanuman*, a 2-D animated feature from Percept Picture, in 2005. The film featuring an Indian deity was well-received at the box office with the total gross earning close to 130 million Indian Rupee (\$2.9 million), and its sequel, *Return of Hanuman*, was released in 2007 (Biwalkar 2006).

The success of the animated feature based on an Indian mythological story gave Indian studios a signal that there is market for local animation content. Encouraged by

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<sup>16</sup> Sony Entertainment has been running a 24/7 English animation channel, Animax India, since 2004 to air Japanese anime in India from Singapore. Sony has another channel, AXN India, whose programming includes animation ([http://en.wikipedia.org/wiki/Animax\\_\(India\)](http://en.wikipedia.org/wiki/Animax_(India))).

the potential of the domestic market as well as that of original content, in 2006-2008, approximately 40 animated features were announced with a \$5 million average budget, generating a production boom of animated features (Author's interview, May 29, 2009B).<sup>17</sup> The *Hanuman* effect also created the production of a series of animations featuring Indian mythological stories and characters (both features and TV series). On the one hand, from the producer's standpoint such local mythological stories reduce the burden of creative development because they have been existing for a long time and are well-known to the local audience. And the animated version can benefit from presenting the stories in a noble way. But, on the other hand, there has been a critique that relying on familiar local stories, not original stories with global appeal, may not nurture the creative capabilities of India studios in the long run and those stories would not travel far enough to reach a global audience (Menon 2006).

In any case, the landing of offshore outsourcing did not immediately push out local production in India. Rather, it led to the quick build-up and expansion of the local industry that is increasingly interested in upgrading to create local content, be it based on local mythologies or not. What have made India distinctive from Korea thus far are the compressed nature of global integration and the almost concurrent emergence of the upgrading model based on original content. The prevalence of offshore services

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<sup>17</sup> The recent economic downturn in 2008-2009, however, has made it difficult for some of these projects in the pipeline to be completed as planned (Author's interview, Jun. 3, 2009A).



outsourcing in recent decades, from back-office functions to R&D, has accelerated the process of India's global integration in animation. Technological changes, such as the popularity of 3-D computer animation, disproportionately benefited the countries like India, which was known for it, and Indians quickly seized the opportunity. The U.S. market as India's primary target has helped the country build a sizeable industrial base for animation production, as occurred in the U.S.-oriented outsourcing chains in Korea.

However, as was found in the investigation of Korea's integration to global animation production in Chapter 5, global integration, even by offshore outsourcing, does not go through a single pathway, but there are multiple routes presenting distinctive opportunities and challenges on the way. And, corporate actors from the same country have divergent capabilities to address such chances and difficulties, the topic we turn to next.

### ***7.3 Divergent Roads to Upgrading***

For several reasons, the transition from a service outsourcing model to an IP model as an upgrading path emerged as an immediate concern in India soon after offshore outsourcing began. First, India's experience with IT software and service outsourcing in the previous decade suggested that without upgrading, the outsourcing business would soon to be stuck with slim margins in a highly competitive global market. Second, for those relatively big Indian companies with significant financial

capabilities, animation outsourcing helped them understand that the simple service outsourcing business would not be big and profitable enough to make sustainable returns. Finally, the success of local original content like *Hanuman* bolstered the confidence of Indian studios in attempting to capitalize on the potential of the local market and original content.

In terms of the value chains Indian animation studios are involved in, three chain linkages are identified: 1) offshore outsourcing chains, mainly for the U.S. market; 2) international coproduction chains; and 3) domestic (potentially regional) market chains.

One distinctive feature of animation value chains in India that is worthwhile to note before we discuss each one in detail is that the chains are present both in animated features and TV series, compared to Korea, where TV series are the predominant option for local producers and features are considered too risky both in global and local markets. One of my interviewees estimated that about 20 Indian studios were working on the feature market, while the remaining 200 studios were competing for the TV animation market. This indicates the significant presence of feature-making studios as well as a competitive market situation confronting TV animation producers (Author's interview, Jun. 5, 2009).

Animated feature and TV series, as noted above (see Section 3.2.2), are based on different business models and require different capabilities; the former takes at least two to three years to develop and complete, therefore the producer needs to secure sufficient

cash flows to keep the production going on until completion. Most of the revenue comes from box-office revenue. Meanwhile, TV series take a shorter time to develop and complete, and the relatively smaller size of production (compared to features) allows the producer to work simultaneously on multiple projects at different stages of production. Revenue streams are likely to be long-tailed, in other words, coming over a long period of time from multiple different sources, including ancillary markets like merchandizing. Therefore, from the producer's standpoint, it is important to keep the next projects in the pipeline so that the studio is able to keep its library building up until it can garner significant returns in a stable manner without the help of new projects.

### **7.3.1 Offshore Outsourcing Chains**

In terms of offshore outsourcing, U.S. buyer-driven chains are the main chains for Indian producers, as in Korea. The greater mobility of U.S. buyers and their willingness to do far-shore sourcing (particularly compared to Japanese buyers) account for their disproportionate presence in India. This was also facilitated by the shift of many U.S. producers to 3-D animation from the 1990s onward and the strong linkage between the two countries already in place in other offshore outsourcing relations.

Many major Indian studios in offshore outsourcing are able to do main production for international buyers. Value capture depends on the size of the project within the chains, i.e., whether the work-for-hire project is, for example, a small-budget

direct-to-video project, which is often one-and-done, or a big-budget, potentially multi-year project, such as a high-quality DVD original, a TV series for major cable networks, or prime time shows for network TV stations. Although, as noted above in the case of Korea, the size of budget does not exactly guarantee the value captured by the outsourcing studio, moving up to high-quality, large-volume projects is one way of (product) upgrading.

Another direction of upgrading is to expand the scope of work beyond main production, that is, pre- or post-production. For some of cost-sensitive projects, foreign studios are more willing to hire Indian studios for those tasks that have been traditionally carried out by Western staff (Author's interview, May 28, 2009). These projects are likely to be low-budget, but this allows Indian studios to work on their skills that they are usually not asked for. Compared to product upgrading for a high-quality project, this path of upgrading is considered as functional upgrading yet without product upgrading (or with product downgrading).

In terms of outsourcing chains, one notable difference from Korea is the absence of Japanese animation chains in India. It was said that Pentafour, one of the pioneers in India's animation outsourcing, had done some contracted work for Japanese studios in the 1980s and 1990s (Author's interview, Jun. 22, 2009). However, it was discontinued at

some point for unconfirmed reasons.<sup>18</sup> There appear to be no sustained outsourcing relations between Indian and Japanese studios. As for the low-profile of Japanese outsourcing chains, some suggest that the Japanese style of animation works as a barrier for Japanese studios to send projects to a country such as India, where animators have not been familiar with these styles.<sup>19</sup> Another reason, probably equally important from a GVC perspective, is the preference of near-shore sourcing by Japanese studios with just-in-time delivery in place. For that reason, Japan's outsourcing destinations in animation have been clustered in its neighboring countries, such as Taiwan, Korea, and recently China.<sup>20</sup>

Finally, European chains, as in Korea, are generally considered to be less quality-conscious and more budget-sensitive compared to U.S.-oriented chains (Author's interview, Jun. 22, 2009). They are, therefore, less visible in outsourcing chains than U.S.

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<sup>18</sup> One interviewee told me that there were quality and delivery issues between Pentafour and Japanese studios, which have no longer contracted out to Indian producers since then (Author's interview, Jun. 18, 2009A). However, I could not confirm this information from other sources.

<sup>19</sup> Japanese TV animation has only begun to gain popularity in the last five years as foreign cable and satellite channels air it (Author's interview, Jun. 4, 2009A). Meanwhile, in Korea, where Japanese animation has been dominant on TV for a long period of time, many young animators have grown up with it and are very familiar with the Japanese style of animation. Some of them want to be working in a Korean outsourcing studio for Japanese projects just because they like anime (Author's interview, Mar. 10, 2009).

<sup>20</sup> One notable exception is Toei Animation's operation in the Philippines, but this is done not by an outsourcing studio but by its own subsidiary, which is linked with Toei's Tokyo studios through dedicated network connections (Yamaguchi 2004).

chains, but their importance has increased as more Indian studios became interested in international coproduction (see below).

### 7.3.2 International Coproduction Chains

As in Korea, international coproduction has emerged as a pathway for upgrading in Indian animation since the mid-2000s. Indian studios are attracted to the coproduction model because it can reduce risk, while helping bolster financial and human resources. For Indian studios, many of which are still very young, coproduction also can help build up their library faster as well as increasing their visibility in the global market (Author's interview, Jun. 9, 2009). Crest Animation, for example, entered into a deal since 2005 with Lions Gates, Hollywood's prominent non-major, independent film distributor, to co-finance and coproduce three 3-D animated features. The first one, *Alpha and Omega*, was released in the United States and worldwide in 2010, grossing \$45 million in total (with a production budget of \$20 million).<sup>21</sup> The studio acquired a Hollywood animation production firm in 1999 to create RichCrest Animation as part of its effort to learn pre- and post-production skills (Schwankert and Pearson 2005).

Hyderabad-based DQ Entertainment (DQE) is another example of upgrading efforts through international coproduction. India's largest animation studio in terms of the number of employees, it started in 2000 with 30 to 40 2-D artists to cater to Canadian

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<sup>21</sup> [http://en.wikipedia.org/wiki/Alpha\\_and\\_Omega\\_\(film\)](http://en.wikipedia.org/wiki/Alpha_and_Omega_(film))

and European buyers. Since 2003, it has been actively involved in a series of international coproductions with major broadcasters and producers, including ZDF of Germany, Nelvana of Canada, Moonscoop of France, and Marvel (Animation Magazine 2009). The company initially participated in international coproduction as a minor partner by swapping its production services for equity. By building up production pipelines to carry out multiple projects simultaneously, the company positioned itself as a reliable, “go-to” studio for international production. Its studios spread across eight locations in India, two in China and one in the Philippines that cater to some 70 customers in 14 different countries (Hindustan Times 2006). At the same time, DQ Entertainment gradually increased its share in the ensuing coproduction projects, and finally in 2010 released the TV series, *The Jungle Book*, of which it is the main producer, handling the entire production process, from pre- to post-production, as well as the principal partner in the partnership with ZDF, Moonscoop, Disney Channel and Universal Studio (Author’s interview, Jun. 17, 2009A).

### 7.3.3 Domestic Market Chains

The growth of India’s domestic animation market provides another pathway to upgrading from the offshore outsourcing model.<sup>22</sup> While the effort of Indian studios to

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<sup>22</sup> The studios whose emphasis lies in offshore outsourcing or international coproduction are generally not so enthusiastic about the domestic market because of the budget (and quality) difference between international and domestic markets (Author’s interviews, Jun. 17, 2009A and Jun. 23, 2009).

create their own animation for the Indian audience began in the first half of the 2000s, it really has taken off since the success of *Hanuman* in 2005. So-called “desi” (meaning indigenous or local) animation is produced by Indian studios mainly to cater to the local audience (and the Indian diaspora in South Asia and worldwide). Many of these animations are based on Indian mythological stories that the local audience is familiar with. In theatrical release, *Hanuman* is a successful example of this type of animation. Another notable Indian animated feature in recent years is *Roadside Romeo*, released in 2008 in both India and the United States by Yash Raj Films, one of the major film producers in Bollywood, and Walt Disney Pictures. The two companies equally contributed to the creative and financial aspects of this 3-D project with a budget of \$7 million, and the entire production was done in India by Tata Elxsi, from pre- to post-production (Bushan 2007). While it was not commercially successful with a total gross of \$2 million worldwide (71 per cent from India),<sup>23</sup> it showed the willingness of an Indian film studio and a Hollywood major to invest in such a project for an Indian audience as well as the capability of a local producer to handle the entire process of producing a long-format animation.

Similar efforts have been made in TV animation. In responding to a growing demand for local content by local TV networks, many Indian studios are looking at the

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<sup>23</sup> <http://boxofficemojo.com/movies/?page=main&id=roadsideromeo.htm>.



domestic TV animation market, which is expanding with the diffusion of TV sets in Indian households (FICCI & KPMG 2010: 43-45). As discussed in more detail below, many foreign animation networks have noticed a growing appetite of Indian viewers for Indian content, and yet they found little locally produced quality animation. Reliance BIG Animation is one of the studios trying to occupy this space. In 2009, it produced a 13-episode TV series, *Little Krishna*, featuring the lovable childhood pastimes of the Hindi god. It was bought by Nickelodeon at a price more than two times higher than what ordinary local animation gets paid. Aired on Nickelodeon's India networks, it recorded a three-time higher TV rating than the average for animation (Author's interviews, Jun. 9 and Jun. 10, 2009).

Another example is Green Gold Animation. This Hyderabad-based studio with about 90 artists specializes in 2-D TV animation. In its early years, the studio mostly worked on small outsourcing projects for Canadian and European buyers. Since 2002 witnessing the growing interest among Indian viewers in local content, however, it has been focusing on original products with its own brand. The *Chhota Bheem* series, debuted in 2008, is the first outcome of this effort. While featuring a nine-year-old boy in rural India about 2000 years ago, the story of the series, now running in its fourth season on Cartoon Network's POGO TV (82 episodes in total), is not based on Indian mythologies, but delivers modern-day messages for the target age group of 6-12 (Author's interview, Jun. 4, 2009B). In 2009, the studio premiered *Krishna & Balram* on Cartoon Network in

India and the series is now in its third season (52 episodes) and expected to air in Indonesia as well (Shetty 2011).

Domestic chains have limitations. Generally, it is a small-budget project market, compared to export or international coproduction chains, with less stringent, albeit rising, quality standards. A 30-min TV animation costs only \$4,000-5,000 in India, while in the United States it costs about a half million dollars. Most of the revenue for the distributor – cable and satellite networks – comes from advertising, while channel subscription fees contribute little (Author’s interviews, Jun. 4, 2009B and Jun. 9, 2009).<sup>24</sup> TV animation channels as distributors – most of which are foreign-owned in India – have a great advantage over local producers in terms of setting the price of the show they acquire, while their competition for high quality local content may help local producers a little in negotiations. As a result, Indian producers tend to position their animation as general family entertainment than purely children’s programs, and also

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<sup>24</sup> Generally ad fees for kids’ channels, such as Nickelodeon, are much lower than those in general entertainment channels, such as Sony Entertainment TV or News Corp.’s STAR Plus.

they look at foreign markets, mostly in the South Asian region<sup>25</sup>, or explore ancillary markets, such as DVD sales and merchandizing, which is yet to grow in India.<sup>26</sup>

But, at the same time, what makes India's local chains distinctive from Korea's is that in delivering local animation to an Indian audience, major local studios, instead of being supported by regulations such as local content quotas, are closely tied to channel providers, most of which are foreign-owned, such as Viacom's Nickelodeon, Time Warner's Cartoon Network, Disney Channel, and Sony's Animax. The globalization of these multinational children's TV networks (Westcott 2002) and the liberalization of Indian broadcasting market (McDowell 1997) have made Indian animation TV networks crowded with these multinationals. But these channel providers increasingly have tried to put more Indian animation on air to meet Indian audience's interest. Although the majority of their air time is still filled with animation from their library shelves or of the recent success in U.S. and Japanese markets, the growing cooperation between foreign channel providers and Indian animation studios is certainly an interesting development that deserves a closer look in terms of the relationship of globalization and localization and its implications to upgrading, as the next section does.

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<sup>25</sup> In an interview, people at BIG Animation told that they sold *Little Krishna* to Nickelodeon not only because the TV network bid the highest price, but it also promised to help the animation be marketed overseas using their global presence (Author's interview, Jun. 9, 2009).

<sup>26</sup> Green Gold Animation is very active to merchandize *Chhota Bheem* in Indian market. It has published comic books featuring the story and characters as well as selling a wide variety of *Chhota Bheem*-themed products on their website (<http://chhotabheem.com/shop/>).

### 7.3.4 The Localization of Media TNCs and Upgrading

In their early years in India, foreign-owned animation cable and satellite networks filled their airtime with non-local properties, be they their own or bought from third parties. Animations were all broadcast in English, not dubbed into local languages. However, the networks have gradually realized that Indian children love to watch animation in their own language rather than in English. First a Hindi version was introduced, and later two Southern Indian languages, Tamil and Telugu, began to be used.

They also began to notice a local demand for Indian animation from the viewers. In order to tap into such demand, the networks have sought to find a way to collaborate with Indian animation studios to produce local content. Turner's Cartoon Network India is the most active in this localization direction. In addition to Green Gold Animation noted above, the network has worked with DQ Entertainment, Toonz Animation, Amar Chitra Katha<sup>27</sup> and other original production studios to coproduce Indian-themed animations (Author's interviews, Jun. 4, 2009B and Jun. 15, 2009). Nickelodeon has acquired BIG Animation's *Little Krishna* in 2009 at the highest price ever paid for Indian animation. Also it announced in 2010 it would coproduce *Keymon Ache* with DQ Entertainment (Stockotopia News 2010). Disney Channel was also exploring the idea of

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<sup>27</sup> Amar Chitra Katha is the publisher of one of India's largest selling comic book series of the same title.

airing Indian original animation as of early 2009, when the interview was conducted (Author's interview, Jun. 4, 2009A).

Since Cartoon Network has been the most active in collaborating with local studios, the following examines the changing strategy of this U.S. network. Cartoon Network India was launched in 1997 and turned into a 24-hour cartoon channel in 2002. While some content began to be aired in Hindi in 2004, its entire line-up was brought from outside of India, mostly from the United States and Japan. However, a series of local audience surveys suggested the growing demand and appreciation of Indian-themed content. Based on this finding, Cartoon Network India aired an Indian-themed animation for the first time in 2002. The animation, *Ramayan: The Legend of Prince Ram*, was telecast in Hindi and English (The Economic Times 2002).<sup>28</sup> It was followed by other locally produced animations, including Toonz Animation's *Adventures of Tenali Raman* (Business Line 2002; Gautam 2003). In 2007, the network entered into coproduction of *Chhota Bheem* with Green Gold that has been aired on its sister network, POGO TV, for four seasons. As of 2009, it had five local animation projects in progress with a similar arrangement. As a result, the share of locally produced animation in Cartoon Network's

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<sup>28</sup> *Ramayan* (or *Ramayana*) was produced in Japan. The project was initiated in 1984 by a Japanese film-maker named Yugo Sako, but facing the Indian government's opposition that Ramayana cannot be depicted as a cartoon character, it was entirely produced in Japan with Ram Mohan and other Indian staff present to assist. It was completed and released in Japan in 1992 and was broadcast in India in 1998 via Doordarshan, the public TV network. The animation was later picked up by Cartoon Network and aired in 2002 (Kotasthane 2005).

program hours in India increased from nil in 2000 to 10-12 per cent in 2009. The network intends to push up the share to 30 per cent of its total broadcasting hours (Author's interview, Jun. 4. 2009B).

Another interesting feature in Cartoon Network's localization strategy in Asia is SNAPTOONS (Short New Asia Pacific CARTOONS, <http://www.snaptoons.org/>). It is the network's pan-Asian original content development initiative. Individual creators or independent studios in the region compete with their own animation idea, and selected ideas are supported by Cartoon Network so that they can be produced into pilots and animated shorts, which will be aired on the network. Instituted in 2006, it selected 10 project ideas in 2008, including five projects from India, and it continues to solicit local ideas (Tanwar 2009). The network also runs similar idea competitions focused on individual countries, such as Malaysia and Australia.<sup>29</sup>

What are the implications of these multinational localization strategies on the upgrading of local studios in India? First, Indian studios, through this collaboration with multinational channel providers, gain a critical exposure of their animation in local, regional (Asia-Pacific) and global markets. The global distribution networks of these media TNCs provide a channel for these animations to find a larger audience, such as

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<sup>29</sup> SNAPTOONS in Malaysia 2010 (<http://www.axapac.com/news/malaysia/cartoon-network-and-mdec-announce-snaptoons-malaysia>); SNAPTOONS in Australia (<http://www.metroscreen.org.au/blog/eNews/Entries/post/Snaptoons/>).

the Indian diaspora population in South Asia and the United States. Conversely, multinational channels play a role of providing Indian studios with much needed market information through co-development and coproduction. From the very beginning of project development, these channel providers offer information about a target audience's media habits, market trends in technology, expression, and style, and their content strategies at local, regional, global markets.

There are potential downsides as well. First, these multinationals are disproportionately big, powerful and concentrated, compared to local Indian studios, particularly original content-oriented studios, many of which are creativity-intensive but small in size. As more quality-conscious local studios jump into the competition, the power imbalance may increase in favor of a handful of foreign-owned channel providers as a large number of small local original producers are eager to get their animations out on air. Second, while the interest of these media TNCs in local content has grown significantly in the last several years, their air times are still full of imported animation from the United States, Europe and Japan. Indian animation has to compete with these imported ones for Indian audience's eyes as well as media TNCs' hands. This leads to our next and final inquiry about India's animation industry, that is, how the state and industrial actors have been involved in the rise of offshore animation outsourcing and the ensuring upgrading efforts in various directions as outlined above.

## **7.4 The State, Industry Associations, and Animation**

The role of the Indian state in industrial upgrading has long been considered limited, compared to East Asian developmental states. Positioning it in between predatory and developmental states, Evans (1995) attributes the deficit of developmentalism in the Indian state to lack of shared discourse and common vision, the absence of a sector-specific policy network, and non-selectivity in state interventions.<sup>30</sup> State-business relations vary by sector, however. Pingle (1999) finds a much closer relation between policymakers and industrial associations in IT and computer software sectors than in steel and automobiles. In the former, collective action has grown among industrialists for policy changes, as opposed to a particularistic relationship between industrialists and politicians, which has traditionally characterized the state-business relation in India (Kochanek 1974; 1995). This section examines the changing role of the Indian state in the animation industry and the impact of industrial associations in the upgrading trajectory of the industry.

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<sup>30</sup> This limited embeddedness between the state and business, on the one hand, has come from the fact that bureaucratic elites have not been favorable to the business class and the elite group has been fragmented in a very heterogeneous society (Bardhan 2010: Chap. 6). On the other hand, the fact the business class has been pursuing a particularistic advantage through a close relationship with political parties, rather than representing industry-wide interests through collective action, has led to the state bureaucracy's reluctance to building a state-business policy network (Kochanek 1974; 1995).



#### 7.4.1 The State: From Animation Producer to Upgrading Facilitator

The Indian government realized as early as in the 1950s that animation could be an effective tool of propaganda, education and community development. This early awareness led to the active involvement of the state in institution building for animation production, including the establishment of the Cartoon Film Unit (CFU), under the Films Division in 1956. The CFU produced two animated shorts yearly with 10-15 full-time animators until the number of films produced doubled to four in 1962; the subject of the films concentrated on educational and social themes such as family planning, national unity, and public hygiene. Animation was preferred by the government for public purpose because it is a simple and less threatening means of communication.<sup>31</sup> Along with the CFU, the Children's Film Society of India (CFSI) was set up by the government in 1955 to promote children's films. Both organizations played a significant role in training young Indian animators in the earlier period; most of those who later became major industrial figures, notably Ram Mohan and Bhimsain, have worked for or been trained in either organization or both of them (Sen 1999).

The leading role by the state further extended when the Animation Department was established in the NID in the early 1970s. It invited foreign animators to teach its graphic arts staff, who in turn provided Indian students with a two-year workshop

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<sup>31</sup> See Kenyon (2001) for the use of animation on such purpose in South Asian countries.

program. The NID's various international exchange activities included sending its faculty abroad for advanced training (Sen 1999). The government has maintained support for the CFU and the NID in exchange for their promotional animated films. However, the influence of those public institutions has been very limited in commercial animation sectors (Author's interviews, May 29, 2009A and Jun. 4, 2010), and somewhat detrimental to the growth of animation as artistic and expressive forms (Sabnani 2005). The strong inclination of the government to propaganda along with the lack of government funds and other bureaucratic obstacles precluded other possible paths for the rise of a commercial animation sector (Sen 1999).<sup>32</sup>

Therefore, it is hard to say that the state has a significant influence on the recent development of the Indian animation industry, such as the inflow of offshore outsourcing and the rise of an IP model for upgrading. As one of the policymakers in the Ministry of Information and Broadcasting (MIB), who is in charge of the film industry, acknowledged, the role of the Indian state is limited to a "facilitator" of the animation industry (Author's interview, Jun. 4, 2010). While some suggest the role of the government's economic policy changes going back in the early 1980s in the latest growth of India's IT and software sectors (Parthasarathy 2004), the rise of animation as a next

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<sup>32</sup> One example of these bureaucratic obstacles is that Indian films could be sent to a foreign film festival only through the Films Unit or the National Film Development Corporation (NFDC); the producers had to pay fees or duties for re-importation to get their work back (Sabnani 2005).

business opportunity for the outsourcing sector is mostly attributed to the efforts made by private entrepreneurs and industrial associations.

In fact, expanding opportunities for offshore outsourcing forced the state to assume a supportive role in replicating the success of the IT outsourcing sector in animation. The shortage of skilled animators was frequently mentioned by the business community.<sup>33</sup> The National Association of Software and Service Companies (NASSCOM), a flagship trade association of the Indian IT sector founded in 1988, urged the establishment of an animation academy for training animators (Thomas and Raydurgam 2005). Business has also pressed the Indian government to build animation infrastructure. In response, the government decided to establish the first Special Economic Zone (SEZ) in the country solely devoted to animation and computer games in 2005, hoping to capitalize on the rush of offshore outsourcing work (Hindustan Times 2005).

There is certainly some evidence for the increased interaction between the state and the animation industry. Industrial associations have regular opportunities to present their proposals to the Minister of Broadcasting and Information (MIB). For example, the FICCI, one of the oldest industry associations in India, presented six policy

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<sup>33</sup> The industry was estimated to need approximately additional 2,000 to 3,000 animators in 2004. Given that the number of animators who could handle complex projects was only 4,000 at that time, the shortage shows how the supply and demand of workforce were imbalanced (Adiga 2004).

recommendations to the Minister in May 2010 (FICCI 2010).<sup>34</sup> Other associations, such as the Associated Chambers of Commerce and Industry of India (ASSOCHAM) and the NASSCOM, have the same opportunity. Through the interaction, policymakers appear to learn and share with key industry actors the idea that Indian animation should move to an IP model for upgrading (Author's interview, Jun. 4, 2010). And the MIB's announcement to establish a \$11.4 billion national center of excellence in animation, gaming and visual effects (VFX) in Mumbai and increasing anti-piracy efforts (Ramachandran 2010) indicates the growing acceptance of the Indian state to the industry's demands.<sup>35</sup>

Compared to the Korean state's moves, however, the actions of the Indian state regarding the animation industry appear to follow what the industry demands (Thomas and Raydurgam 2005). State bureaucracy still maintains the attitude to "avoid the pitfalls of being too closely tied to a social structure full of contradictory demands" (Evans 1995: 73). When there is conflict of interest among industrial actors surrounding state intervention, such as between animation producers and TV networks over local

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<sup>34</sup> The recommendations include a 10-year tax holiday for animation, gaming and visual effects industry, 10 percent mandatory local content requirements on TV networks, market development assistance, and a 10-year entertainment tax exemption for all children and animation feature films.

<sup>35</sup> One of the reasons to set up the national center of excellence is that many private training institutes, which have mushroomed all across the country, are churning out unqualified animators, which animation studios have complained about. The key function of the national center is to set up the benchmark for animator training (Author's interview, Jun. 4, 2010).

content requirements, as one of my interviewees pointed out, there appears to be no way for the Indian government to take any action to tip the balance.

#### **7.4.2 Animation and Industry Associations**

In India, the role of shaping the development trajectories in animation has been done by private firms, entrepreneurs and particularly industry associations. For example, the Indian IT outsourcing sector has set the tone for a new animation framework different than state-led public projects. The opportunities of global outsourcing in animation were quickly caught by Indian IT service companies seeking a new business outside the low-wage IT service. NASSCOM, the Indian chamber of software and IT outsourcing business, has taken a lead in shaping the new direction. Animation was rhetorically positioned as the “next big thing” in Indian outsourcing business (Thomas and Raydurgam 2005). It also underscored the technological and convergent aspects of the animation industry by matching animation with gaming and VFX. Its industrial emphasis has been bolstered by its various activities to disseminate such perception: publishing industry studies jointly with renowned global consultancy firms and hosting trade events like *Animation India* (Author’s interview, Jun. 3, 2009B).

The FICCI, another industry association, has also established the Animation and Gaming Forum under the umbrella of its Media and Entertainment sectoral activities to provide an industry forum as well as a contact route to government ministries with

animation, gaming, and VFX firms (Author's interview, May 26, 2009B). One of the latest FICCI's sectoral reports points to the upgrading direction of the Indian animation industries: a transition to an IP model, investment in market research, developing pre-production abilities, and investing in coproduction partnership (FICCI & KPMG 2010: 118).

Multiple industry associations are involved in the animation industry with somewhat different emphases. The NASSCOM has brought the model success in IT, software, and business process outsourcing (BPO) into animation. Animation outsourcing is understood as an extension of IT-enabling service and part of knowledge-process outsourcing (Author's interview, Jun. 3, 2009B). Meanwhile, the FICCI as a pan-industry association covering 39 sectors<sup>36</sup> frames animation as part of the media and entertainment sector (Author's interview, Jun. 2, 2010). The co-existence of multiple industry associations seems to be related to the nature of industrial associations in India. Historically, three major multi-sector industry associations – the FICCI, the ASSOCHAM and the Confederation of Indian Industry (CII) – have been competing with one another (Sinha 2005; Pinglé 1999). There are also some sector-specific associations like the NASSCOM.

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<sup>36</sup> <http://www.ficci.com/about-ficci.asp>

This co-existence does not necessarily indicate the presence of competing frames and policy recommendations in animation. Such possibility is relatively low because of, among others, a relatively small size of the animation industry per se (even combined with gaming and VFX) and the overlapping representation of the major studios at both associations<sup>37</sup>, although there is not much interaction or coordination between the two (Author's interviews, May 26, 2009B and Jun. 3, 2009B).<sup>38</sup>

Overall, the private animation sector in India was invigorated by a rush of the outsourcing work, and growing domestic demand has played a critical role in shaping the trajectory of the industry from state-led development to offshore outsourcing and now to an IP ownership model.

## **7.5 Conclusions**

India's development trajectory in the animation industry displays some similarities but more differences with Korea's. In terms of similarities, offshore outsourcing in both countries played a crucial role in establishing a commercial animation sector. It expanded the industrial base of animation production in the 1970s

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<sup>37</sup> As of June 2010, 20 to 25 animation and gaming firms were active in FICCI Animation and Gaming Forum, including DQ Entertainments and BIG Animation (Author's interview, Jun. 6, 2010).

<sup>38</sup> This active role of multiple industry associations in animation is an interesting contrast to Korea's experience. There is little evidence that any of the major industry associations in Korea, such as the Federation of Korean Industries (FKI), has been involved in the animation industry. The single association of animation studios, the KAPA, was established in 1994 when the government was seeking for a counterpart in the animation industry (see Section 6.3.3).

and 1980s in Korea and in the mid-1990s and onwards in India. Global integration critically facilitated the rise of new studios and the increase of workforce for animation production, although in both countries it also generated the efforts to move beyond the model solely based on offshore outsourcing.

Despite this crucial role of offshore outsourcing, India's trajectory in global integration shows marked differences with Korea's. On the one hand, it reflects the different timing of their global integration with India as a later comer to global animation production network riding on the second wave of globalization. On the other hand, it is attributed to the different characteristics of the linkage of the Indian animation industry to animation GPNs and India's political economy. Several differences stand out: India's focus on 3-D computer animation, a bigger interest of domestic conglomerates and media TNCs on India's domestic market, the leading role of U.S. market for outsourcing with the notable absence of Japanese chains; and the crucial role of well-established, pan-sectoral industry associations in shaping the development trajectory of the industry with the limited role played by the state.

In the next and final chapter, these commonalities and differences are discussed in a bigger theoretical context.



## 8. CONCLUSION: ANIMATING DEVELOPMENT IN THE GLOBAL CULTURAL ECONOMY

With the case of the Korean animation industry, this study has examined the changing structure of global cultural industries and development and upgrading therein. In the context of changes in the global animation industry over the two waves of globalization (Chapter 3), the development trajectory of Korea in animation has been analyzed in terms of the historical changes of Korea's linkage to global production networks (Chapter 4), variations across different animation chains (Chapter 5), and the role of the state (Chapter 6). Most of the findings are summarized and discussed in the conclusion section of each empirical chapter in conjunction with the three theoretical pillars of this study presented in Chapter 2.

The goal of this final chapter is to reflect the findings of this study in a comparative manner by using the Indian case (Chapter 7), extending our discussion in a broader context, theoretically and policy-wise, and therefore draw some valuable implications and a future research agenda regarding upgrading in the changing global cultural economy. Keeping consistency with the preceding presentations, the following three sections are organized around three topics, each of which corresponds to one of the research questions and the related empirical chapter.

## **8.1 The Restructuring of Global Cultural Industries**

This study has shown a GVC analysis is effective in analyzing cultural industries that are increasingly globalized in production and consumption, thereby responding to the call for such research (Barrowclough and Kozul-Wright 2008; Pratt 2008).

Cultural/media imperialism, NICL, and regional cultural networks all explain some important aspects of global cultural industries in the past and the present. The dominance of imported animation (mostly from the United States and Japan) both in Korea and India partly supports the argument of cultural/media dependency. NICL cast new light on how the power of global media lead firms is exercised in a highly disintegrated and globalized system of animation production. Finally, the regional cultural networks argument provides due attention to the emerging phenomenon of animation production and circulation from the periphery and within regions.

What a GVC-based approach and this study on animation contribute to these insights is to disaggregate globalization at the value chain level. What are seemingly Western and Japanese animations that represent the invasion of foreign culture and threaten the cultural autonomy of developing countries, in fact, have been produced by the hands of animators in Korea and India. The cross-national division of labor in animation is neither static nor exclusive to Hollywood majors. While U.S. and Japanese outsourcing chains pose distinctive upgrading opportunities and constraints, so do international coproduction chains. The type of lead firms, their domestic production

system and product strategies shape the structure of each value chain as well as upgrading opportunities therein differently. Regional cultural flows, analyzed from a GVC perspective, have more internal heterogeneity than would be suggested by cultural-geolinguistic proximity. The presence of power inequality as shown in Korean-Japanese outsourcing linkages and the infiltration of media TNCs between Indian studios and multinational channel providers echo some of the critical assessments of cultural regionalization (Iwabuchi 2010b; a; Scott 2005). Although a GVC approach is not the only way to disaggregate globalization, a GVC approach provides more nuanced pictures of global cultural industries that the other theories have not done by focusing on inter-firm governance and upgrading.

This disaggregation of global forces at the value chain level provides additional insight into the multiple pathways to global integration. The globalization of production and consumption involves various components, and the content varies by time and place. Different production networks are governed by distinct types of lead firms with varying capabilities to serve diverse market demands. Thus, the finding of this study offer additional evidence to the recent studies suggesting the multiplicity of GVCs and their governance forms (Gibbon 2008; Morris et al. forthcoming; Navas-Alemán in press). This issue is discussed in more detail in the next section.

From a GVC standpoint, this study highlights the interaction of global linkages and local dynamics. This can be viewed in two different aspects: (1) how global linkages

affect local production system; and (2) how local development strategies affect global-local linkages. The GVC literature has focused on the global linkages through which local producers are integrated to global production networks, with little attention to the impact of such integration on local production systems. When a country is linked to global production networks, what happens to the local production system? This study shows several different scenarios.

First, it can hollow out local production, as seen in the early stages of Korean animation. The outsourcing sector absorbed most workforces that might have worked for local production. While offshoring provided huge export growth and an opportunity for Korean animators and studios to be trained and work for high-quality, high-volume projects that otherwise they might not have had, it hampered the development of local production, creative and market skills at both the individual and firm levels, and their skill development was skewed to foreign buyers' demands. In fact, it is not easy to resist the temptation of foreign earnings and big projects.<sup>1</sup>

Second, offshore outsourcing can have spillover effects. In this scenario, local production is facilitated by the growth of the outsourcing sector. More people and

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<sup>1</sup> Reflecting the situation of Indian animation right after the influx of offshore outsourcing, Ram Mohan said: "Once we had a team of trained people we should have taken up original content, doing our own shows and putting them in the world market or at least in the Indian market. But that was not something which was happening. Because once you get into this group of getting more business / work form [sic] abroad earn in dollars that becomes the temptation and they don't go beyond that" (quoted in Kotasthane 2005).

money flow into animation production, not only for outsourcing but for original content. This is to some degree what India has been experiencing for the last several years. The inflows of offshore outsourcing drastically expanded the local animation industry that was previously driven by a few public sector projects. This industrial expansion spilled over to the production of local animation when more and more studios began to see the possibility of the domestic market. The question is how well two systems can coexist not only at the country level but also at the firm level.

Global production networks can impact local production not only by landing, but by leaving. This applies to Korea after 2000. The departure of offshore outsourcing for lower-cost countries opened up two potential pathways: demise or restructuring. The Korean animation industry has largely chosen the direction of retooling its development model in the direction of strengthening local original production and its export potential. The crisis of offshore outsourcing has not led to the decline of the entire animation industry, but rather facilitated the search for a new model and engagement in global markets through a renewed strategy, such as international coproduction.

This latest shift in Korea, however, was not entirely driven by the crisis of offshore outsourcing itself. It was supported by a new domestic development strategy that shaped the direction of the shift. This relates to the second aspect of global-local interactions noted above: the effect of local development strategies on global-local linkages. The Korean government's active support for local production and exports (and

virtually ignoring outsourcing-based exports) and the growth of a new generation of indigenous producers have changed the nature of these linkages. Replacing the old alliance of local offshore outsourcing suppliers and their foreign buyers, the new export coalition of original producers and the state has redefined the country's relation to global animation value chains to the point that some offshore outsourcing studios expresses their frustration at the lack of government support. While space does not permit a full discussion of this issue, the intersection of national development strategies and global-local linkages in the context of upgrading points to an interesting direction for the GVC literature to move forward (see below).

From a GVC standpoint, this study points to some of the uniqueness in global cultural values in terms of upgrading opportunities and challenges. The importance of distributors in cultural chains to a great degree echoes the critical roles of downstream actors (retailers and buyers in agriculture and manufacturing contexts) that GVC studies have focused on. Upgrading to creative development is somewhat similar to R&D upgrading in manufacturing in its knowledge-intensive nature, yet in cultural products, creativity is more about ideas and stories than technology, which poses a challenging

question of how creators or noble stories can be nurtured and whether any policy or strategy can be of help.<sup>2</sup>

This study brings new attention to the role of finance and IPRs in the operation of GVCs. As animation studios move to original production, financing becomes a critical issue in upgrading, particularly when facing media TNCs with deep pockets.<sup>3</sup> Many audio-visual projects require considerable capital outlay that is often beyond a single firm's reach, while the success of the projects is hard to predict. The high-risk and uncertain nature of cultural industries hampers financing unless there are certain measures in place to mitigate such uncertainty. Animation-making is a relatively costly project that takes a longer time to complete than other audio-visual products. And in the case of TV animation, its revenue stream is long-tailed, relying on multiple sources for an extended period of time (Milic and McConville 2006; Raugust 2004). In many countries, the financing system of cultural products is underdeveloped as compared to Hollywood, and that is why financing is considered major bottleneck for Korean

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<sup>2</sup> Of course, 3-D computer animation brought the issue of technological R&D to animation because computer software can increase the efficiency of animation production process as well as enable new ways of artistic expressions, and some high-end Hollywood studios use their own proprietary software to outcompete the studios solely relying on off-the-shelf tools (Author's interview, Feb. 13, 2009).

<sup>3</sup> Financing is not a great matter as long as local producers are engaged in offshore outsourcing. While establishing and expanding their facilities to cater to foreign buyers is still important, most of operational expenses are paid by the buyers. The issue of financing, in fact, has been critical in the discussion of developmental states; provisioning financial resources (subsidy, credit) to local producers and using it as a tool for disciplining them has been considered a major characteristic of East Asian developmental states (Amsden 1989; Chang 2006).

animation producers and the Korean state has been trying to address through various public and private programs.

Intellectual property is another aspect that deserves close attention. As with other intangible assets like computer software, IPRs are the critical for cultural products. They protect the rights of content producers and rights-holders to ensure the financial benefit from the property they have created or owned. When local producers are working on for-hire projects, IPRs are not an issue because they are not the IPR owners; the buyers are. Producing original animation, however, brings up IPRs as the key concern of producers, as shown by the fact that Indian studios call their new strategy based on original production an “IP” model. In international coproduction, who will have which rights is the critical part of negotiations. To a great degree, IPRs embody power relations in cultural value chains; they reflect and are reflected by who has the power to govern the chains and dictate the distribution of gains. Therefore, in cultural value chains, IPRs are the key target of upgrading.

The importance of finance and IPRs, finally, brings up a large issue regarding the restructuring of global cultural industries: glocalization as a new form of global cultural flow and financialization as a governing mechanism for media TNCs. The first wave of globalization shifted global cultural flows from a clear division of labor between the Global North as a producer and the South as a consumer (the cultural imperialism model) to the North as a creator and the South as a producer (the offshore outsourcing



model). In both models the originator and creator of the content were firms from advanced economies. However, what would it happen to transnational media giants if more and more content comes from local stories, and is produced by local producers and consumed mainly by local audience? How could they maintain their influences in this “glocalized” flow of cultural content? If this study provides any indication, media TNCs remain in a strong position through their control of finance (as a way to secure the IPRs), IPRs (as marketable assets), and distribution (as a way to circulate the property and realize the profits).<sup>4</sup> By holding up these bottlenecks, they are still able to maintain their governing position in the operation of global cultural chains without having creative and production functions inside the Global North. Their financial value is grounded on the rights-based revenue coming from a myriad of their cultural properties, regardless of wherever the story has come from and whoever has made the story in motion.

This discussion brings us back to the insights of some of the authors discussed earlier on glocalization/hybridization as a cultural form of globalization and the role of TNCs as the key actor of globalization. Recall that Iwabuchi (2010b) points out copyright monopoly and international exploitation of cultural labor as two major sites of TNCs’ power to support the rise of regional cultural flows. If the findings of this study allow us

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<sup>4</sup> It remains to be seen whether or how much the Internet reduces concentration in the distribution of the content by making it cheaper and freer (Caves 2000; Crane 2002).

to point to any direction, a GVC-based analysis of global cultural chains can provide an effective tool to analyze the economic and organization foundation of glocalized media flows and the sources of power.

## **8.2 Varieties of Upgrading Paths**

This study has shown that network forms of global production systems can play out in diverse forms at the local level. The diversity of GVCs in terms of governance structures has significant implications on local producers' upgrading, creating multiple trajectories for upgrading. During the first wave of globalization in animation, Korea embraced two distinctive offshore outsourcing chains. The U.S. and Japanese chains in Korea led to different outcomes for each supplier group. The two outsourcing chains were later joined by local production and international coproduction chains. In India, the landing of global production networks had different outcomes. Most of the chains are oriented to the U.S. market, with the striking absence of Japanese chains. Instead, local chains and coproduction chains quickly emerged.

What this suggests is that linkages to global production networks should be viewed at a more disaggregate level than simply offshore outsourcing or exports. Near-shoring may have a different look from far-shoring, as in Japanese and U.S. chains. Not only the distance to the end market but also the characteristics of the end market appear to be important. The full-package main production of big-budget projects has different

impact on the entry barrier and upgrading of local producers than a piecemeal outsourcing of small-budget projects. Even within the same end market, chains can be diversified depending on target product markets, for example, high-end product markets (feature, primetime TV shows) versus low-end product markets (direct-to-video), with different entry barriers and upgrading opportunities.

As Ponte and Ewert (2009) point out, global integration entails a complicated process that often requires a trade-off between upgrading and downgrading. In the high-end market, even Korean firms with a couple of decades of outsourcing experience may have little chance to get involved in high value-added tasks beyond main production. In contrast, as many Korean and Indian studios have witnessed, foreign buyers for low-end, budget-conscious projects are more willing to relegate those pre- and post-production functions to developing-country firms. In this case, functional upgrading can entail product downgrading.

An interesting question is whether working on multiple chains is beneficial for local suppliers to upgrade (Lee and Chen 2000; Navas-Alemán in press). Unlike in Korea where many studios decided to leave offshore outsourcing to focus on original production, for Indian studios, a dual-track strategy seems to be the direction that many of them prefer to go. The CEO of BIG Animation wrote, “the future of Indian animation lies in evolving a model which will be a right blend of animation process outsourcing and original content creation” (Ashish SK 2008). Outsourcing helps the studio maintain

a good level of cash flows and work flows as well as giving it exposure to global market trends and big projects.<sup>5</sup> Having an original animation project in parallel to service outsourcing helps both the long-term revenue prospects of the company and it prevents the animators from burning out from repetitive outsourcing projects. By circulating regularly between two chains, one told me, the studio can keep its animators creatively alert and technologically advanced (Author's interview, Jun. 9, 2009).

One caveat from Korea's outsourcing experience is that in a dual-track situation, the original production segment is often overwhelmed by the outsourcing segment because the latter is more time-constrained but it promises immediate cash earnings. As a result, without strict managerial planning and execution to keep the balance between the two, the tendency is to put more animators (and better ones) to work-for-hire projects to keep the studio financially running and not losing buyer's confidence. This can create internal tensions between managerial staff (putting the priority on financial considerations) and creative staff (valuing original production more).

Outsourcing buyers may not look favorably at the studio working on its own projects in addition to work-for-hire projects. In fact, in the Korean case, some suggest that some foreign buyers did not like the fact that their Korean suppliers were working

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<sup>5</sup> Some of the Korean studios that have shifted to original production from offshore outsourcing now are working on foreign outsourcing projects selectively, only on the condition that those projects are technologically and skill-wise challenging – i.e., they have something to learn from doing it (Author's interview, Apr. 15, 2009). Financial considerations, such as earning services fees, are not the primary concern.

on their own projects because the buyers were concerned their projects might not get the most attention and the best skilled animators, or “A team,” in the studio (Author’s interview, Apr. 15, 2009). One Indian interviewee said that her studio is trying to mitigate such concerns by increasing the transparency of its operations (Author’s interview, Jun. 17, 2009A).

Meanwhile, the contrasting characteristics of U.S. and Japanese buyers in terms of organizing offshore supply networks had a clear consequence on the structure of Korean outsourcing suppliers. Their differences in product type, budget size, supplier preference and governance structure bifurcated the firm ecology of Korean animation into a small number of large and capital-intensive suppliers catering to U.S. buyers, and a large number of small suppliers with the skills necessary to meet Japanese buyers’ demands for just-in-time delivery and flexibility. The segmentation of supplier groups serving different foreign markets shows some similarity to what is found between U.S. and Europe-oriented chains in sectors like apparel (Gibbon 2008; Bazan and Navas-Alemán 2004).

As for the CPN research on the differences between U.S. and Japanese multinationals in the case of electronics (Borras et al. 2000), this study has confirmed the U.S.-Japanese contrast in offshore outsourcing. From the supplier standpoint, this difference had implications for skill learning. U.S. buyers (mostly distributors) prefer to rely more on local capabilities by contracting out the entire main production to their

Asian suppliers, whereas Japanese buyers (mostly production studios) are more selective in exploiting local capabilities. In contrast to the open and mobile supply chains of U.S. studios, Japanese networks prefer a long-term supplier-buyer relationship with gradual capability-building. Skill development was achieved in specific skill sets required by the buyer through the individual transactions between the supplier and the buyer, not at the level of the entire supply base for general skill sets, as in U.S. chains where the most capable suppliers were selected and rewarded through open competition.<sup>6</sup>

This may solve the seemingly contradictory expectations in the literature about the skill upgrading implications of U.S. and Japanese chains (see Section 2.3.3). Both U.S. and Japanese buyers are concerned about capability-building with local suppliers. Yet they are interested in distinctive types of the capabilities (e.g., more general, standardized skills in the U.S. chains versus buyer-specific skills in the Japanese chains), and they behave differently to promote it (e.g., supplier competition in the U.S. chains versus training suppliers on the job in the Japanese chains). U.S.-oriented suppliers may be more versatile for some projects and buyers, yet they have to always put themselves at the top of the pecking order to win the contracts. In contrast, the skills demanded by

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<sup>6</sup> Recall the fact that in the Japanese chains, suppliers are required to use specific document forms designated by the buyer and trained to familiarize the animation styles of the particular buyers, while in the U.S. chains pre-production materials are generally standardized (see Section 5.2.2).

Japanese-oriented suppliers are likely to be highly asset-specific (often locking them into a certain supplier or Japanese chain). But to learn, they can rely on the buyers and their fellow suppliers at the same group.

Finally, this study has cast light on the role of domestic and regional markets in upgrading. In the first wave of globalization in animation, domestic markets were not a significant concern for foreign buyers and local suppliers. As long as their contract orders were met, foreign buyers were generally disinterested in the domestic market of their suppliers, which was not the major market for those buyers.<sup>7</sup> And without active marketing, much of the broadcasting hours on Korean TVs were filled with imported animation. Local producers also considered local projects at best as a gap filler for their off-season work schedules. Therefore, the linkage to global production networks through outsourcing was largely irrelevant or detrimental to local production (e.g., skill shortage or bias caused by the dominance of offshore outsourcing).

As local producers moved to an original product model, domestic markets gained new significance. In Korea, to ensure the distribution of locally produced TV animation, a domestic quota system has been installed mostly at the insistence of local

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<sup>7</sup> Often, in Korea, foreign buyers suspect that their Korean suppliers were using the characters or story from their animations without their consent to make a copycat version for the Korean market. In fact, some Korean studios made such animations to earn quick extra money from the local market. For example, one Japanese interviewee told me that IPR protection is one of the major concerns of Japanese firms when they contract out to the countries where such protection is weak (Author's interview, Mar. 26, 2009).

producers. In India, the success of *Hanuman* and other locally produced animation in the domestic market spurred the interest in the domestic market by local studios as well as foreign channel providers. As shown in the case of Japanese animation, the presence of a big, robust and competitive domestic market is important to the building-up of local animation production because the studios do not have to rely on foreign demands or foreign inputs, including finance.

However, in the context of the latest stage of globalization, a more intriguing aspect is the role of domestic markets as a facilitator of global integration of local producers, not their protector from global market forces. The findings of this study suggest is that domestic markets may indeed (positively) affect the integration and upgrading of local producers in global markets, and global players can capitalize on their linkages to local markets to advance their competitive position in the global market.

Some glimpses of these dynamics have been shown. When Korean original producers paid attention to their domestic market and demanded local animation quotas, it was not simply because they wanted the protection of an infant sector, as done in the past as part of industrial policy, but because without viable domestic markets for local animation, they would not have the same opportunity to succeed in global markets. One interviewee points out that in global sales venues, potential foreign buyers always check the performance of the animation they are interested in at the home market because they believe it indicates the possibility of success in other markets (Author's



interview, Feb. 13, 2009). In this regard, local markets can play a role as a springboard for global exports.

At the same time, domestic markets can be a bargaining resource with multinational distributors or coproduction partners. As shown in the growing interest of media TNCs in tying up with local Indian studios, local, particularly big and growing, markets can be helpful to attract finance as well as collaboration from foreign firms.<sup>8</sup> Also, having a robust local market (and regional markets) at their back is helpful to increase their influence in the coproduction deal. In a similar vein, having institutional support for international coproduction or a well-developed financing system at home can help local producers to advance their position in such collaborations.

This discussion raises a further question about the relationship between local, regional and global markets (or value chains). As opposed to the idea that multiple markets are a source of tension, this study highlights the interlinked nature of those markets. Korean original producers' renewed interest in local and regional markets reflects their view of those markets not only as a revenue generator by itself, but also as a launching pad for their global expansion. Local and regional chains certainly provide a distinctive opportunity for upgrading than global chains, but they are not a hiding place from competitive pressures in the global market or tyranny of global buyers. From the

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<sup>8</sup> In fact, many TNCs appear to have little interest in making such efforts for localized production in Korea. Many broadcasting feeds come from the headquarters of their pan-Asian operations, such as Singapore.

TNC's point of view, local and regional markets may have benefits as well. Penetrating in local and regional chains or co-developing new properties with local studios can be a strategy to ensure their success in a decentralized world of cultural globalization.

### **8.3 The State and the Politics of Upgrading**

What do the experiences of Korean and Indian states say about the role of the state in industrial upgrading in the era of globalization? Globalization presents development challenges to states in terms of a free flow of capital, labor and skills as well as the fragmentation of production. These external challenges interact with changes in the domestic political economy. In the context of the developmental state, one argument is the decline of the state's capability to guide the economy and shape a development path. Another argument is the continuing relevance of the developmental state. The third argument is the reconfiguration of the developmental state with a new mission, role and state-business relationship.

Globalization certainly challenges the active role of the state in industrial development, as shown in the Korean case of the 1990s. External liberalization pressures and internal challenges from the chaebol were pitted against the Korean state's leading role in industrial policy. As this study has documented, however, that did not lead to the decline of the Korean state's industrial intervention, but to a deeper engagement in upgrading. This new type of intervention may not resemble big leadership as found in

the old Korean development state, but it certainly does not indicate the Korean state has been relegated to a back-seat role in support of whatever local producers want to do.

Compared to the previous role of the state in policing local animation through media control and censorship, the state has gradually taken up a bigger role in the animation industry as globalization threatened the domestic cultural market in the 1990s and Korea's outsourcing exports collapsed in the early 2000s. The Korean state has affected the development paths of local cultural industries by pushing the animation industry to move forward to upgrade itself and compete with global players at home and abroad. The influence of the state has expanded, rather than shrunk, through its policies to strengthen infrastructure and address specific bottlenecks in the value chains, such as promoting workforce development, channeling public funds to creative projects, and providing favorable regulatory and institutional environments.

This leadership role of the Korean state becomes clearer when it is compared to the Indian state's interventions. While the Indian state's developmental role was enhanced in certain sectors like IT, software and animation over the last decade, much of development mobilization was done by private actors, such as individual entrepreneurs and industry associations. The state bureaucracy still appears to be keen to "avoid the pitfalls of being too closely tied to a social structure full of contradictory demands" (Evans 1995: 73). The Indian state, thus, has more cautious reactions to the industry's demands, and it tends to prefer functional industry policies than selective, sector-

specific intervention. In both Korea and India, the expansion of global production networks has invigorated local efforts to upgrade, and yet the role of the state in such endeavors still shows a marked difference in the two countries.

At the same time, the state's role, no matter how big, or whether leading or following, is a historically conditioned social construct co-built by the state and industry. The Korean case highlights that the trajectory of state intervention is shaped by the evolving relationship between the state and industry. Despite a growing need to respond to the influx of foreign firms in domestic audio-visual markets in the late 1990s, the challenge from the chaebol to the state's developmental role and the disagreement between the state and the animation outsourcing sector over the direction of upgrading constrained the embeddedness and effectiveness of state intervention. The state's reorientation of its relationship with the animation industry was facilitated by the post-crisis environment, where a new group of SMEs actively engaged in state policymaking to advance its new upgrading model based on original production and international coproduction. A rearrangement of state organizations, such as the establishment of the KOCCA, has facilitated the re-embedded relationship between the state and industry.

The fact that the role of the state and its relationship with industry is historically contingent begs the question of whether this new configuration is solid enough to endure further external and internal challenges. To some extent, it relates to the question of what drives the relevance of developmental states and how such a reconfiguration

would work in the future. Some scholars might see from the findings of this study only the last vestige or the inertia of old state bureaucracies that are destined to disappear sooner or later (e.g., Pirie 2005). Others would consider it as evidence of the resilience of developmentalism as political culture, or the strength of developmentally oriented states as an institutionalized form (Woo 2007a; Loriaux 2007). Some scholars associate state developmentalism with inherent demands and constraints originating in the developmental model a country chooses, for the example of Korea, an EOI model (Chibber 2005), or in general a structural linkage between the production/development regime and the associated state form (see Huber and Stephens 2001).

One promising direction of research along these lines is the politics of developmentalism. While economic development has always been a subject of political contention, it has more specific implications in newly democratized countries like Korea. The story of state intervention in the Korean animation industry, indeed, is deeply entangled with the political development of Korea: military dictatorship, democratization, and electoral changes between liberals and conservatives. The second phase of state intervention (1993-1999) featured the country's first civilian-led government since 1961, yet it was led by a conservative and free-market alliance. And the last phase from 1999 until 2007 was driven by two liberal-minded administrations. Despite their critical roles in implementing neoliberal reforms after the economic crisis, compared to the previous administrations, they generally favored the active role of the

state in industrial and social policy and a more SME-based, less chaebol-influenced economic structure, although the actual policy outcomes might turn out otherwise. It may be too early to fully gauge the extent to which the shift in state intervention in cultural industries was affected by such political difference. In this regard, it would be interesting to see what legacy will be left on cultural industry policy by the current conservative government led by Lee Myung-bak, a former chaebol CEO, and more generally, whether this state reconfiguration will produce a “second-stage catching-up system” (Chang 2006: 304) for the post-crisis Korean economy.

More generally, what do the findings of this study tell about the direction of industry policy? First, the fragmentation of the production process and the rise of an extensive international division of labor highlight the need for state engagement to be more focused and often surgical in order to meet the specific demands from the chain nodes the country is involved in. Functional industrial policies, such as those regarding infrastructure, human resources, finance, etc., are still important. Yet, as exemplified by Korea’s value chain-based state intervention, such policy may be more effective if it is customized to the specific need of the chain nodes. For example, the content of skill development programs could differ widely depending on who is being trained – creators and writers, animators (hand-drawn or computer-assisted), or producers – and what skill sets are needed for upgrading. Also, the size and type of financial needs can be very different, say, between outsourcing suppliers and coproduction producers.

One implication of value chain-based intervention is that it is likely to demand more, not less, sector-specific embedded linkages between the state and industry to be effective as global production is organized in a more fragmented and highly specialized manner. Another implication is that the state may find contradictory demands for state action between local actors in different types of chains or in different nodes at the same chains. For example, original producers may prefer the state to install a quota system for local animation on TV, whereas TV networks may be not enthusiastic about it, as happened in Korea when local producers pushed forward such a regulatory proposal.

The second lesson is that the role of the state vis-à-vis the private sector can be flexibly managed depending on the needs in each chain node and the capabilities of private actors to meet the needs. State action is not unitary across the board. In some chain nodes where local producers have enough skill sets to compete globally, say, 2-D main production in Korea, the role of the state may be not so great. In other nodes where local producers need more financial and institutional support, the state's role can be far more critical and have a direct impact. As long as the key goal of state intervention is to help local producers move into the more lucrative segments of GVCs, specific measures to achieve this goal do not need to solely focus on protecting domestic producers or markets from outside players, picking national champions, or be aimed entirely at embedding the local to global production networks; rather, it is a mix of these options.

The last discussion point is about cultural industries and the state. This study has shown the importance of cultural policy and strategies and the significant, yet varying, role of the state in the face of cultural and economic globalization (Crane 2002). In the context of cultural industries, some policy elements stand out. IPR protection and enforcement seem to be critical for cultural industries as long as it does not stifle creativity. Workforce development is more challenging since it concerns highly creative skilled workers. It is also critical to have a financing system attuned to the specific needs and constraints of cultural products, be it public-led, market-driven, or a blend of both. The growing importance of domestic markets, as noted above, challenge the state to come up with a policy to support the building of robust cultural chains, which can be used by local producers as a springboard or training ground for their global expansion or as a bargaining tool to attract foreign buyers or coproduction partners.

Last but not least, the discussion thus far points to the renewed significance of a territory. Globalization is often characterized as de-territorialization, where territorial boundaries and powers are losing their influences to cross-border flows and supra-national governance. This study suggests that globalization in a deepened form embodies re-territorialization, in which local and regional boundaries and economic and political powers within them have new significance in the global economy. When local producers are engaged in a simple outsourcing business, local markets and state policy do not have great relevance. Yet, as local producers try to upgrade, territorial elements



can become highly important as the container of distinctive market demands and institutional supports. As shown in the case of international coproduction, well-cultivated domestic and regional media markets and institutional support at home are increasingly critical as local producers step up to compete in global markets. In a similar vein, as indicated by the interest of multinationals in a large domestic market like India, embedding themselves into territorialized cultural forms, market demand, and institutional support are also a critical part of media TNCs' glocalization strategy. How the state can manage this more complicated process of globalization is a promising future research question.

## Appendix A: Interviewee Lists

**Table A-1: Interviewee list, Korea**

Interview date	Organization type	Position of interviewee	2D/3D	Offshore outsourcing	Original production	International coproduction	Major market
Jun. 10, 2008‡	Industry association	Manager	-	-	-	-	-
Jun. 16, 2008	Government organization	Fmr. Sr. Researcher, Cultural Industry Policy	-	-	-	-	-
Jun. 21, 2008*	Animation producer	CEO	2D	Y	Y	N	Japan
Jun. 23, 2008	Government organization	Director, Management & Operation	-	-	-	-	-
Feb. 12, 2009	Animation producer	Fmr. General Manager, New Business	2D	N**	Y	N	Domestic/Foreign
Feb. 13, 2009†	Animation producer	Chief Producer & Director	3D	N	Y	Y	Domestic/Foreign
Feb. 20, 2009A	Animation distributor	President	-	-	-	N	Foreign
Feb. 20, 2009B	Animation producer	CEO	-	N	N	N	Domestic
Feb. 24, 2009	Cable TV network	Chief Producer, Content Production	-	-	Y	Y	Domestic
Feb. 25, 2009	Animation producer	CEO	2D	Y	Y	N	Japan
Mar. 3, 2009A	Educational institution	Professor (Fmr) Director, Planning	-	-	-	-	-
Mar. 3, 2009B	Educational institution	Professor, Animation Dept. (Fmr) Producer	-	-	-	-	-
Mar. 6, 2009§	Animation producer	General Manager, Animation Business	2D/3D	N**	Y	Y	Domestic/Foreign
Mar. 10, 2009*	Animation producer	CEO	2D	Y	Y	N	Japan
Mar. 11, 2009	Government organization	Director, Comics & Animation	-	-	-	-	-
Mar. 12, 2009	Animation producer	CEO	3D	N	Y	Y	Domestic/Foreign
Mar. 17, 2009‡	Industry association	Executive Director	-	-	-	-	-
Mar. 25, 2009	Government organization	Marketing Manager	-	-	-	-	-
Apr. 7, 2009	Animation producer	Director, Animation Studio	3D	Y	Y	Y	Domestic/Foreign

Apr. 9, 2009A	Animation producer	Vice President, Marketing	2D/3D	Y	Y	Y	U.S./Japan
Apr. 9, 2009B	Animation producer	Director	2D	Y	N	N	Japan
Apr. 15, 2009§	Animation producer	Managing Director	2D/3D	N**	Y	Y	Domestic/Foreign
Apr. 21, 2009	Animation producer	CEO	2D	Y	N	N	Japan
Apr. 23, 2009	Animation producer	CEO	2D	Y	N	N	U.S.
Jul. 2, 2009	Educational institution	Chair,	-	-	-	-	-
Jul. 6, 2009†	Animation producer	Chief Producer & Director	3D	N	Y	Y	Domestic/Foreign

\*/† the same interviewee; ‡/§ the same organization with different interviewees; \*\* prior experience in offshore outsourcing

**Table A-2: Interviewee list, India**

Interview date	Organization type	Position of Interviewee	2D/3D	Offshore outsourcing	Original production	International coproduction	Major market
May 4, 2009	Animation producer	CMD/Exec. Producer	2D/3D	Y	N	N	Domestic/regional
May 5, 2009	Educational institution	Managing Director	-	-	-	-	-
May 7, 2009*	Animation producer	Managing Director; Producer	2D	N	Y	N	Domestic
May 18, 2009*	Animation producer	CEO; Manager, Corporate Communications	3D/2D	Y	Y	Y	U.S./Domestic
May 19, 2009*	Animation producer	Director; Head, Marketing	2D	Y	Y	N	Domestic/Global
May 20, 2009	Animation producer	Freelance producer; Fmr. Line Producer	3D	Y	Y	N	U.S.
312 May 25, 2009	Animation producer	Creative Director & Founder	3D/2D	N	Y	N	Domestic/regional
May 26, 2009A*	Animation producer	Chairman; Director	3D	Y	Y	Y	U.S./Domestic
May 26, 2009B	Industry association	Regional Representative	-	-	-	-	-
May 28, 2009	Animation producer	CEO	3D	Y	Y	Y	U.S./Global
May 29, 2009A	Government organization	Officer-in-Charge	-	-	-	-	-
May 29, 2009B	Trade press	Editor-in-chief	-	-	-	-	-
May 30, 2009	Industry association	Secretary	-	-	-	-	-
Jun. 3, 2009A	Animation producer	CEO	2D/3D	N	Y	N	Domestic/regional
Jun. 3, 2009B	Industry association	Regional Director & VP, Outreach	-	-	-	-	-
Jun. 4, 2009A	TV network	Assistant Manager, Acquisitions	-	-	-	-	-
Jun. 4, 2009B	TV network	Director, Programming	-	-	-	-	-
Jun. 5, 2009	Animation producer	Creative Director	3D	Y	N	N	U.S./Domestic
Jun. 9, 2009	Animation producer	CEO	3D/2D	Y	Y	Y	U.S./Domestic

Jun. 10, 2009	Animation producer	CEO & Founder	3D/2D	Y	Y	N	Domestic/Europe
Jun. 12, 2009	Animation producer	EVP, Biz Development	3D	Y	Y	Y	U.S./Europe/Domestic
Jun. 15, 2009	Animation producer	CEO & Founder	2D	Y	Y	N	U.S./Europe/Domestic
Jun. 16, 2009*	VFX producer	Educator; Assistant Manager	3D	Y	N	N	U.S.
Jun. 17, 2009A	Animation producer	VP, Management Office	2D/3D	Y	Y	Y	U.S./Europe
Jun. 17, 2009B	Animation producer	Founder & Managing Director	2D	N**	Y	Y?	Domestic
Jun. 18, 2009A*	Educational institution	CEO; COO	-	-	-	-	-
Jun. 18, 2009B	Animation producer	CEO	3D	Y	Y	Y	U.S./Europe
Jun. 23, 2009	Animation producer	CEO & Founder	3D	Y	N	N	U.S.
Jun. 2, 2010	Industry association	Head, Entertainment	-	-	-	-	-
Jun. 4, 2010	Government organization	Director, Films	-	-	-	-	-

\* Two interviewees from the same organization; \*\* prior experience in offshore outsourcing

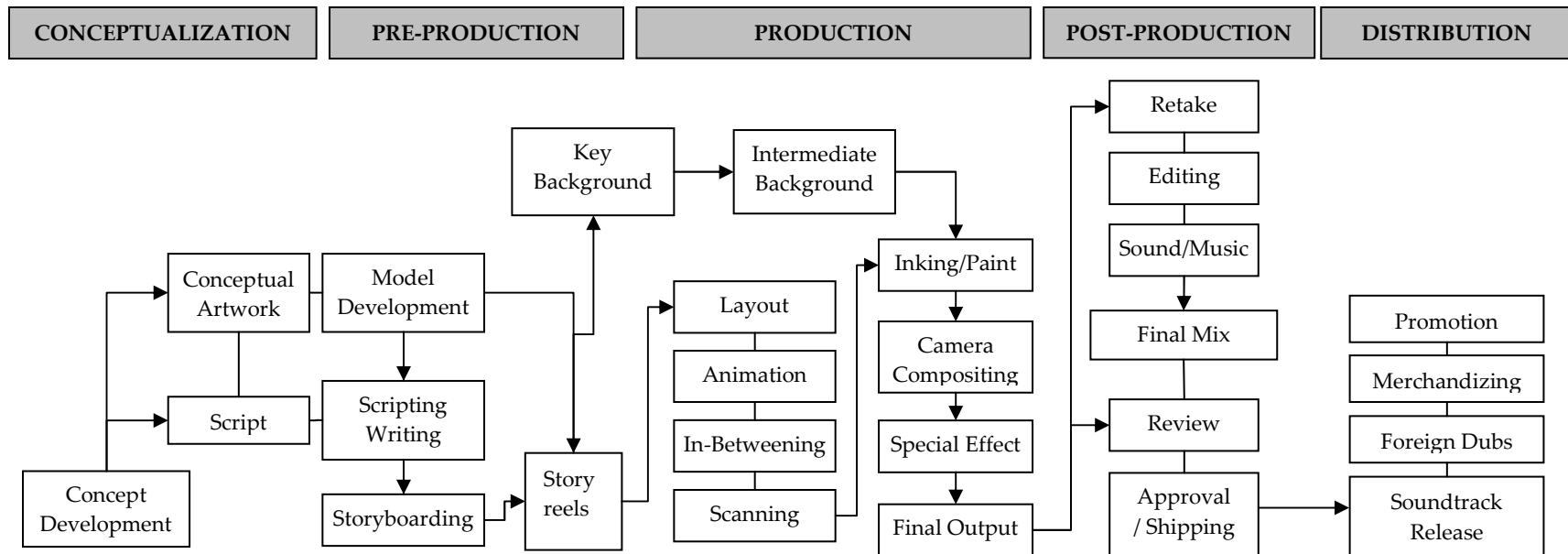
**Table A-3: Interviewee list, Japan**

Interview date	Organization type	Position of interviewee	2D/3D	Offshore outsourcing	Original production	International coproduction	Major market
Mar. 24, 2009	Animation producer (second-tier)	President	2D	Y*	N	N	Japan
Mar. 25, 2009	Government organization (Korea)	Manager, Marketing	-	-	-	-	-
Mar. 26, 2009	Industry association	Executive Director	-	-	-	-	-

\* As a main contractor

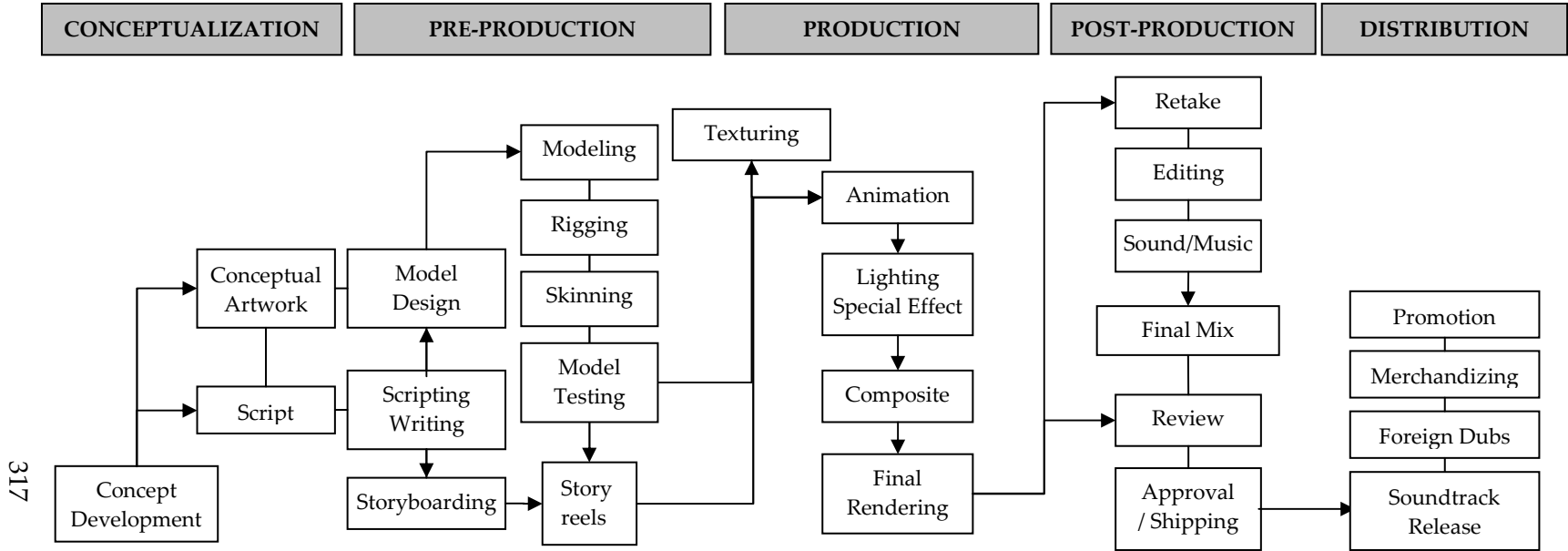
## Appendix B: Animation Production Process





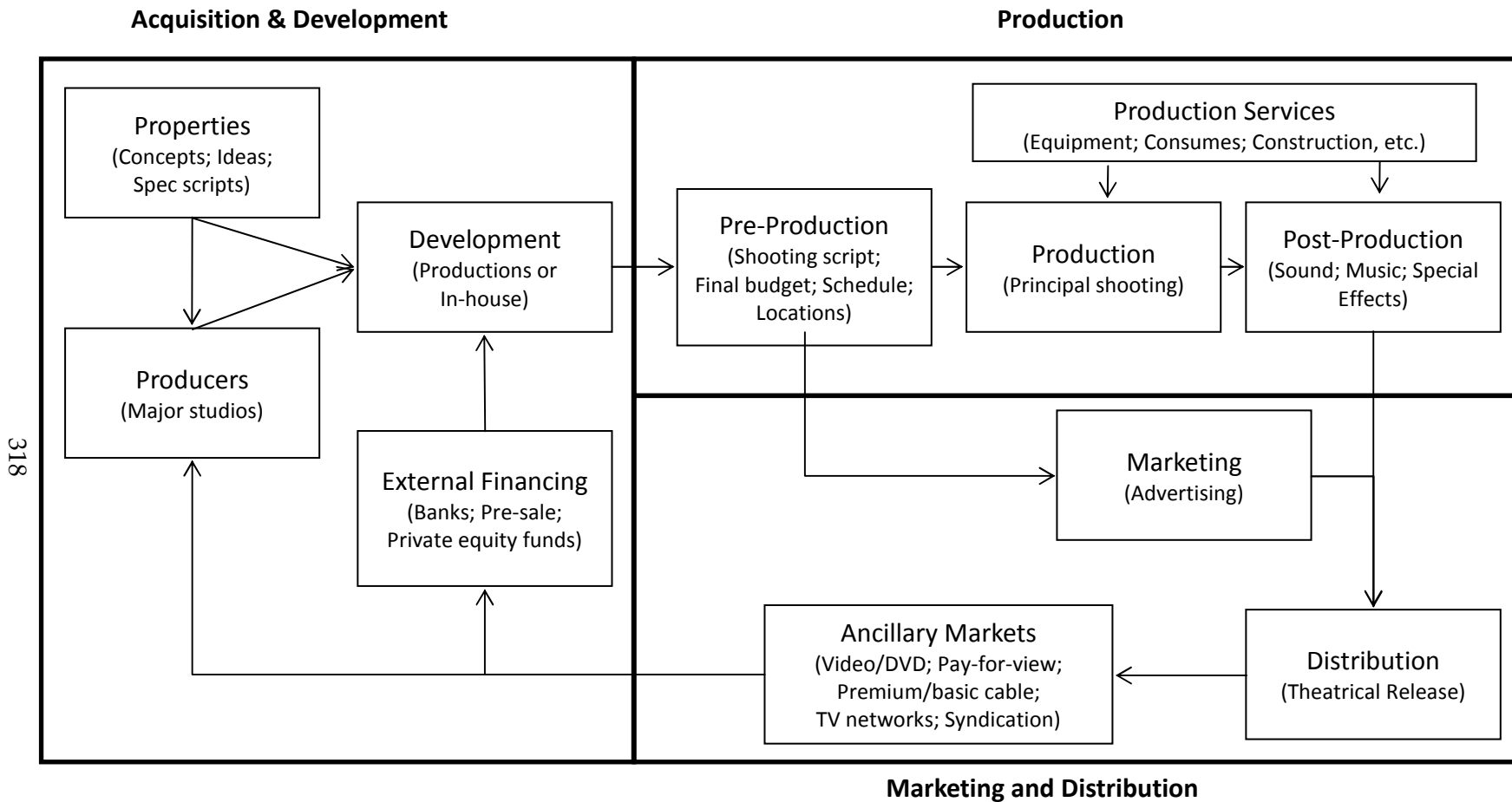
Source: based on Winder and Dowlatabadi (2001); Milic and McConville (2006)

**Figure B-1: 2-D animation production process**



Source: based on Winder and Dowlatabadi (2001); Milic and McConville (2006)

**Figure B-2: 3-D animation production process**



Source: based on McDonald and Wasko (2008)

Figure B-3: Hollywood film value chains

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## Biography

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