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***Hallyu* at a Crossroads:  
The Clash of Korea's Soft Power Success and China's  
Hard Power Threat in Light of Terminal High Altitude  
Area Defense (THAAD) System Deployment**

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The past two decades have witnessed the remarkable success of *Hallyu*, or the Korean Wave, with Korea welcoming a large influx of foreign visitors and benefiting from massive consumption of products ranging from Korean television and film, K-pop and lifestyle products. A more recent announcement by CJ E&M points to an even more aggressive plan for regional ubiquity, as encapsulated by *Hallyu* 4.0. Simultaneously, we have already felt some of the effect of policy changes in China – a core *Hallyu* market – as a response to Korea's plan to deploy a Terminal High Altitude Area Defense (THAAD) system. In this sense, we see the stirrings of a clash between Korean soft power and Chinese hard power, and are uncertain who will emerge on top. This paper examines the broad success of *Hallyu* from key theoretical perspectives, while addressing linkages between Korean corporations and cultural power/influence that have led to an announcement such as *Hallyu* 4.0. This paper also highlights the recent tensions between Korea and China, specifically with respect to THAAD deployment, and outlines potential implications for businesses and policymakers through preliminary scenarios.

*Keywords:* Nuclear Taboo, Nuclear Arms, Deterrence, Norms, Proliferation, Just War

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## I. INTRODUCTION

The past two decades have witnessed the tremendous growth of *Hallyu* (i.e., the Korean Wave), a cultural phenomenon that has introduced an eclectic mix of Korean and “global” elements encompassing drama and film, music, and lifestyle products. In recent years, the number of foreign tourists to Korea (“Korea,” “South Korea,” and “Republic of Korea” will be used interchangeably) has jumped from just under 6 million in 2004 to over 17 million in 2016, with a noticeable surge in tourists from China (refer to Appendix 1). Arguably, *Hallyu*’s success to date may have prompted firms such as CJ E&M to announce more aggressive strategies to promote the consumption of Korean goods and services (as seen in *Hallyu* 4.0). As *Hallyu* arguably represents both an extension of Korea’s export-led economic growth and a springboard for a more vibrant local tourist industry, policymakers and practitioners have (at the very least) clear economic incentive to ensure *Hallyu*’s continued success. We can see this in aggressive marketing campaigns that attempt to appeal to a foreign consumer base, particularly for music-related content, cosmetics and fashion.

However, recent shifts in international politics threaten to halt a strategy that has proven successful to date. Specifically, Korea’s decision in 2016 to deploy the Terminal High Altitude Area Defense (THAAD) system – arguably to enhance Korea’s defense capabilities vis-à-vis an increasingly aggressive nuclear North Korea – has agitated China, one of Korea’s largest markets for *Hallyu* consumption. This resulted in a slew of retaliatory actions that suggest that China is willing to use hard power (with respect to Korean industry in general and *Hallyu* in particular) to show dissatisfaction with Korea’s recent security moves. While it is premature to know what these developments mean for *Hallyu*’s future growth prospects and trajectory, this paper will undertake a preliminary analysis given the direct impact of strained Sino-(South) Korean relations alongside the announcement of ambitious goals such as *Hallyu* 4.0.

This paper will consider the success of *Hallyu* through the lens of neoliberal, nationalist and cultural hybridity perspectives. This section will also keep in mind linkages between Korean corporations and cultural power/influence that have led to an announcement such as *Hallyu* 4.0. This paper will also highlight the recent tensions between Korea and China, specifically with respect to THAAD deployment, by looking at a timeline of key events and major consequences to date, and provide potential implications for businesses and policymakers through preliminary scenarios.

## II. HALLYU: EVOLUTION AND KEY THEORETICAL PERSPECTIVES

Broadly speaking, *Hallyu* refers to the positive reception to, and mass

consumption of, Korean products and culture. We can divide the *Hallyu* phenomenon into three major phases: (1) dramas and film for *Hallyu* 1.0; (2) K-pop for *Hallyu* 2.0; and (3) K-lifestyle for *Hallyu* 3.0. While these distinctions may be useful in understanding major subsets of the *Hallyu* industry, this does not imply, for example, that *Hallyu* 2.0 marked the end of the influence of Korean dramas and film. Rather, subsequent waves have served to reinforce earlier triggers and further spread the influence of *Hallyu*.

As mentioned above, *Hallyu* 1.0 emphasizes the role of dramas and film in spurring consumption of Korean products and culture. A turning point in Korean dramas came in 1995 with the broadcast of *Morae Sigae* (*Sandglass*) by Seoul Broadcasting Station (SBS). In contrast with longer historical dramas that spanned several years, *Morae Sigae* set a new standard by fixing the length of Korean dramas to between 12 and 24 episodes. Using this general framework as a guide, key genres within this category included historical dramas such as *Heo Jun* (aired between 1999 and 2000) and *Dae Jang Geum* in 2003 (starring Lee Young-ae), exposing global audiences to Korean history and culture. Dramas such as *Winter Sonata* (starring Bae Yong-joon and Choi Ji-woo), broadcast in 2002, were particularly popular in Japan and garnered a noticeable fanbase among older Japanese women, a remarkable feat considering the tense history between Korea and Japan (Oh 2011).

More recently, Korean dramas such as *My Love from the Star* (2014), *Descendants of the Sun* (2016) and *The Legend of the Blue Sea* (2016-2017) have included more fantastic or surreal elements, such time/space travel and wartime plots, within a framework of Korean history. Unsurprisingly, such dramas feature popular actors and actresses (e.g., Jun Ji-hyun, Kim Soo-hyun, Song Hye-kyo, Song Joong-ki), striking scenery and combine values such as love and duty. Although *Hallyu* 1.0 focuses specifically on dramas and film, market watchers and consumers have become more alert to product placement (PPL), or the visible placement of products within frames (for more detailed analysis of PPL and *Hallyu*, see Su et al. (2011) and Huang (2011)). For *Descendants of the Sun*, products that reported a surge in sales after broadcast include Korean cosmetics brand Laneige (*The Straits Times* 2016). From these examples, we can see the active interplay between and promotion of media content and product consumption.

Following *Hallyu* 1.0 is *Hallyu* 2.0, which highlights K-pop in driving *Hallyu* growth. Starting in the late 1990s, precursors to today's "idol" groups included popular boy groups H.O.T (S.M. Entertainment) and Sechs Kies (also known as SECHSKIES; formerly DSP Entertainment, currently YG Entertainment), as well as girl groups such as S.E.S. (S.M. Entertainment), Fin. K.L (DSP Entertainment) and BoA (S.M. Entertainment). These groups not only boasted massive fandoms in the Korean market, but saw sizable followings in the Chinese and (to some extent) Japanese markets by the early 2000s. As evidenced by the global success of Psy's

*Gangnam Style* in 2012, K-pop grew as a regional and global phenomenon largely under the management of major entertainment firms such as S.M. Entertainment, YG Entertainment and JYP Entertainment (refer to Table 1). The entertainment houses have generally maintained a tight vertical integration structure encompassing trainee recruitment, choreography, vocal training, producing and marketing (for extensive analyses of K-pop and the local music industry, see Howard (2014), Lie (2012) and Shin (2009)) while utilizing new digital platforms for swift global distribution. As an extension, the popularity of so-called “idols” have led to several reality programs that search out talented youth in the hopes of creating the next hit group. Noticeably, several executives of large entertainment houses have served as judges on these shows (e.g., K-pop Star, Produce 101, WIN: Who is Next) while markets such as China have emulated these shows and even invited Korean idols to sit as judges (for example, Seungri of Big Bang served as a judge for *Girls Fighting* on Chinese television in 2016).

TABLE 1. MAJOR ENTERTAINMENT FIRMS AND ASSOCIATED K-POP GROUPS

	S.M. Entertainment	YG Entertainment	JYP Entertainment
Founder	Lee Suman	Yang Hyun-suk	Park Jin-young
Founding Date	1995	1996	1997
Associated K-pop Groups (as of April 2017)	BoA, EXO, f(x), Girls' Generation, Kangta, Red Velvet, SHINee, Super Junior, NCT	Akdong Musician, Big Bang, BLACKPINK, CL, iKON, Psy, Sandara Park, SECHSKIES, WINNER	2AM, 2PM, GOT7, Miss A, Twice
Former Associated K-pop Groups	Fly to the Sky, H.O.T, Shinhwa	1TYM, 2NE1, Gummy, Wheesung	g.o.d., Rain, Wonder Girls

SOURCE: Respective company data

In addition to *Hallyu* 1.0 and 2.0, *Hallyu* 3.0 represents a broader wave of K-lifestyle, or a focus on beauty and cosmetics, health, food and software/ entertainment. As mentioned earlier, we have seen aggressive marketing of local cosmetic brands through strategic product placement in hit dramas and films. Not only do firms such as AmorePacific benefit from local and overseas sales of cosmetics (particularly in the Chinese market), but local brands have also enlisted star actors and actresses as models and “ambassadors” to further spur the respective brand’s popularity. For example, Jun Ji-hyun endorses local cosmetic brands such as IOPE and Hera, featured prominently in *My Love from the Star* and *The Legend of the Blue Sea* (*Cosmopolitan* 2016), while *Descendants of the Sun* actress Song Hye-kyo is the face of Laneige (*Laneige* 2016). Until recently, demand from Chinese customers led to the outperformance of AmorePacific stock, with the promotional effects of *Hallyu* via K-drama and K-pop cited as the primary factor (*Forbes* 2015).

While academic literature and industry sources stop at *Hallyu* 3.0, this paper highlights a more recent announcement in August 2006 by CJ E&M regarding so-called *Hallyu* 4.0. According to CJ E&M, *Hallyu* 4.0’s goals are nothing short of ubiquity: “That everyone will watch at least two to three Korean movies a year, eat Korean food one to two times per month, watch one to two Korean dramas per week, and listen to one to two Korean songs per day... that Korean culture will be a part of everyday life” (*JoongAng Ilbo* 2016a, translated by author). Rather than constituting a contextually distinct “wave,” *Hallyu* 4.0 can be seen as an effort to quantify the penetration of *Hallyu* content, or an accumulation of *Hallyu* 1.0 to 3.0.

To achieve this goal, CJ E&M stated that it would pursue global partnerships, particularly with China and Southeast Asian nations, and increase the portion of global sales to 50% through the creation of more localized content (*JoongAng Ilbo* 2016a, translated by author). But given current tensions with China and an effective ban on *Hallyu* content to the mainland (to be discussed in detail in the following section), CJ E&M has begun focusing on fostering strategic partnerships with Southeast Asian economies. Specifically, the company launched a television station (tvN Moves) in January 2017 with paid-subscription network and telecom operator StarHub Ltd. in Singapore, with the channel to specialize in South Korean movies (*Yonhap News* 2017b), and announced in April 2017 that it will open new channels exclusively for airing *Hallyu* content in Malaysia, Vietnam and Hong Kong (*Yonhap News* 2017c).

TABLE 2. COMPARISON OF *HALLYU* 1.0 TO 4.0

	<i>Hallyu</i> 1.0	<i>Hallyu</i> 2.0	<i>Hallyu</i> 3.0	<i>Hallyu</i> 4.0
<b>Focus</b>	K-drama, K-film	K-pop	K-lifestyle	K-ubiquity
<b>Examples</b>	<i>Dae Jang Geum</i> , Descendants of the Sun, <i>Heo Jun</i> , The Legend of the Blue Sea, <i>Morae Sigae</i> , My Love from the Star, Winter Sonata	2NE1, Big Bang, BoA, BTS, EXO, H.O.T, Fin. K.L., Girls Generation, Psy, Rain, Sechs Kies (SECHSKIES), S.E.S., SHINee, Shinhwa, Super Junior, TVQX, Twice, Wonder Girls	Beauty (AmorePacific, Hanyul, Hera, Innisfree, IOPE, Laneige, Mamonde, Nature Republic, su : m37°, THEFACESHOP, TONYMOLY); Health; Food; Software (Kakao)	In progress; strategic partnerships with local governments and institutions in China/Southeast Asia to localize and increase consumption of <i>Hallyu</i> contents

With respect to *Hallyu* content and its evolution, several theoretical approaches compete to explain how *Hallyu* became such a phenomenon. Major approaches used to explain *Hallyu*’s success include neoliberal perspectives, cultural nationalism and cultural hybridity. Neoliberal approaches highlight the role of entrepreneurial acumen and market opportunism behind *Hallyu*’s growth (e.g., Shin and Kim 2013).

In other words, a few individuals and institutions were able to supply and market the right products to a market that was ripe for consumption. This view would argue that the success of K-pop, for example, would not have been possible without the talent and foresight of entrepreneurs such as Lee Su-man, Yang Hyun-suk and Park Jin-young (respective founders of S.M. Entertainment, YG Entertainment and JYP Entertainment, and accomplished entertainers in their own right) and the massive entertainment houses they created. Along this vein, one could argue that the popularity of K-dramas and films can be explained by superior scriptwriting, acting, cinematography and technical expertise.

In addition to neoliberal perspectives, cultural nationalism has been a popular explanation for *Hallyu*'s growth. This theoretical perspective has emphasized the active role of the state in pushing the *Hallyu* agenda at both an ideological and strategic level, with developments such as the creation of the Ministry of Culture and Tourism in 1994 and enactment of the Motion Pictures Promotion Law in 1995 serving as early examples (Yang 2012, 116). Similar to how the Korean government provided financial support and incentives for large *chaebols* who committed to state-led, export-driven economic development strategies of the 1960s and 1970s (e.g., Kim 1997), we have seen the government create initiatives to further highlight *Hallyu* as a major growth driver and promote exports of Korean cultural content (e.g., Kim and Jin 2016; Kwon and Kim 2013).

Cultural hybridity approaches explore the nature of *Hallyu* products in explaining their broader appeal. Rather than emphasizing "Koreanness," *Hallyu* is seen as representing eclectic products that blend Korean and non-Korean elements for a global audience. In other words, *Hallyu* may have broader appeal and palatability because elements of *Hallyu* are not necessarily unique to Korean culture, but include content and values that are culturally shared. With regards to K-pop, some would go as far as to argue that there is nothing inherently or traditionally "Korean" about K-pop with regards to musical style and composition, choreography or stage visualization (Lie 2012). In addition, Yin and Liew (2005) argue that *Hallyu*'s early appeal in markets such as Singapore intersected with and challenged the predominance of Chinese-based popular culture while also remaining a form of "Chinese" consumption.

While this paper does not set out to argue which theoretical perspective is most compelling in explaining *Hallyu*'s success to date, it should suffice to say that we can see the interplay of all three theoretical perspectives over the course of *Hallyu*'s evolution. We see that the creative, entrepreneurial spirit and economic opportunism of for-profit firms and individuals (i.e., neoliberal emphasis) was further encouraged by government support (i.e., cultural nationalism) for eclectic products that blended Korean and non-Korean elements for a global audience (i.e., cultural hybridity). Beyond theory, however, we have also seen a conscious emphasis on the Asian region as a primary target for *Hallyu*, particularly China. Whether due to geographical

proximity or cultural familiarity (or a combination of the two), it is impossible to neglect China's importance in the growth of *Hallyu* to date.

Simultaneously, we must not underestimate the role that *Hallyu* has and continues to play for Korea. Even in the earlier years of the Korean Wave, market watchers could point out the unique function *Hallyu* played as the core of Korea's cultural diplomacy. Regarding a 2004 meeting between then-President Roh Moo-hyun and Vietnamese Prime Minister Phan Van Khai:

“Something unexpected happened. After a moment of calm, the Vietnam officials stood up one by one and started to line up in front of a woman, asking her to sign their menus. The woman was actress Kim Hyun-joo, heroine of the SBS TV drama ‘*Yuri Gudu*’ (Glass Shoes – ‘Glass Slipper’), which had been shown on Vietnam television in May 2003. Actress Kim had become well-known in Vietnam after the drama became a big hit there. The commotion settled down only after a Korean general promised the actress's autographs for everyone after lunch. The center of attention during the luncheon apparently was not President Roh or Prime Minister Khai, but actress Kim, showing that perhaps the Korea[n] Wave is stronger than diplomacy” (*Hancinema* 2004).

This ability of Korean dramas and film, K-pop and K-lifestyle (as embodied in beauty, health, food and software) to create fandoms, spur consumption and encourage emulation is no small feat – particularly for a middle power neighboring two massive empires. It is against this backdrop that the next section explores the recent security dilemma in Northeast Asia, namely the expected deployment of the Terminal High Altitude Area Defense (THAAD) system, and its impact on the future of *Hallyu*.

### III. SECURITY DILEMMA: TERMINAL HIGH ALTITUDE AREA DEFENSE (THAAD) AND THE CLASH OF POWERS

#### *1. Regional Tension Amidst THAAD System Deployment*

Behind the glitz and glamour of *Hallyu*, the Korean peninsula remains in a state of war. From the perspective of South Korea, North Korea represents both family and foe. While politically liberal administrations under former President Kim Dae-jung and Roh Moo-hyun adopted a more conciliatory posture vis-à-vis the North (as highlighted in the “Sunshine Policy” between 1998 and 2008), successive conservative administrations in South Korea from 2008 and a regime change in the North in 2011 from father (Kim Jung-il) to son (Kim Jung-un) have heralded a phase of greater geopolitical uncertainty. While we have yet to see what

newly-elected President Trump's stance will be regarding Northeast Asia, there has been little sign of a let-up regarding deployment of a Terminal High Altitude Area Defense (THAAD) system in South Korea. In fact, continued missile tests by the North and the recent assassination of Kim Jung-un's brother, Kim Jung-nam, in February 2017 have served to escalate already tense regional dynamics.

Talks of deploying the THAAD system began in earnest in June 2014, when United States Forces Korea (USFK) commander General Curtis Scaparrotti told a forum that the United States was considering the deployment of THAAD in South Korea to counter North Korean threats (refer to Table 3). From early on, China was vocal in expressing concern about the THAAD system – particularly regarding U.S. intentions for deploying a system so close to the Chinese border. On the one hand, Beijing's response to THAAD deployment can be seen as the use of hard power to express discontent with decisions that may threaten China's own security. For example, concerns include the possibility that THAAD's radar may be "covertly switched into a longer range mode that feeds into the broader U.S. missile defense – giving Washington earlier notice of Chinese launches" (*The Huffington Post* 2017). In this sense, China's antagonism towards the THAAD system deployment could be viewed as a measure to protect its own national security rather than as opposition to Korea's ability to defend itself from Kim Jung-un's aggressive North Korean regime.

TABLE 3. TIMELINE OF MAJOR EVENTS SURROUNDING THAAD DEPLOYMENT  
(REPUBLIC OF KOREA)

Date	Event
<b>June 3, 2014</b>	United States Forces Korea (USFK) commander Gen. Curtis Scaparrotti tells a forum that Washington is considering deploying THAAD in South Korea to counter North Korea's threats
<b>February 4, 2015</b>	China's Defense Minister Chang Wanquan expresses concerns over the possible deployment to South Korean counterpart Han Min-ko
<b>March 11, 2015</b>	South Korea's presidential office says no decision was made on whether to allow the U.S. to deploy the THAAD battery in South Korea
<b>April 10, 2015</b>	U.S. Defense Secretary Ashton Carter says his country is not ready to begin discussions on the possible deployment of the THAAD system on South Korean soil
<b>May 21, 2015</b>	South Korea's Defense Ministry says that Seoul would join consultations with Washington if the U.S. requests a discussion on the possible deployment of the THAAD system
<b>January 6, 2016</b>	North Korea conducts its fourth nuclear test, claiming that it succeeded in detonating a hydrogen bomb
<b>January 13, 2016</b>	President Park Geun-hye says in a press conference that her country will review the issue of whether to allow the American forces here to deploy the THAAD system

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<b>February 7, 2016</b>	South Korea and the U.S. announce that they agreed to begin negotiations for the “earliest possible” deployment of the THAAD battery on Korean soil in response to North Korea’s launch of a long-range rocket
<b>March 4, 2016</b>	South Korea and the U.S. officially launch a joint working group to discuss the possible deployment of the THAAD system
<b>March 31, 2016</b>	Chinese President Xi Jinping tells U.S. President Barack Obama during a summit that China is “firmly opposed” to the deployment of a THAAD battery in South Korea, according to China’s Assistant Foreign Minister Zheng Zeguang
<b>June 4, 2016</b>	Defense Minister Han Min-koo says that South Korea has the clear intention to deploy the THAAD system on its soil during the Asia Security Summit held in Singapore
<b>June 24, 2016</b>	Defense Minister Han Min-koo tells reporters that the THAAD system is believed to be capable of intercepting North Korea’s intermediate-range ballistic missiles if deployed in South Korea.
<b>July 5, 2016</b>	South Korea’s Defense Ministry says Seoul and Washington have yet to decide when and where to deploy the THAAD system
<b>July 8, 2016</b>	South Korea and the U.S. announce the decision to deploy THAAD on Korean soil
<b>August 2, 2016</b>	Shares of K-pop and entertainment-related firms (including S.M. Entertainment, YG Entertainment, Showbox Corp., CJ E&M and CJ CGV) fall amid speculation that China will regulate South Korean content following the decision for THAAD deployment
<b>August 3, 2016</b>	China’s Hunan Television issued an order for all scenes with South Korean actors to be edited out, according to a new internal policy, resulting in <i>My Love from the Star</i> actress Yoo In-na planning to be cut out of a 28-episode drama slated for broadcast on Hunan Television
<b>August 7, 2016</b>	<i>The New York Times</i> reports the postponement of a fan event with Kim Woo-bin and Suzy for <i>Uncontrollably Fond</i> and cancellations of two concerts planned to be held by EXO in Shanghai
<b>September 28, 2016</b>	Daniel Russel, U.S. Assistant Secretary of State, told a hearing held by the Asia Pacific subcommittee of the House Foreign Affairs Committee that THAAD system deployment would be deployed “as soon as possible”
<b>November 25, 2016</b>	After signing with the Chinese mobile phone brand in October, Jun Ji-hyun reportedly replaced by Chinese actress Angelababy on an advertisement campaign
<b>January 5, 2017</b>	In response to requests to lift China’s retaliatory actions including its ban on K-pop and K-drama stars as well as on bilateral exchanges and cooperation, Chinese Foreign Minister Wang Yi stated that “the Chinese government will make efforts to resolve this conflict if the deployment is put on hold”
<b>January 23, 2017</b>	Three scheduled performances in China by Grammy Award-winning soprano Jo Sumi are canceled one month prior, with three orchestras releasing separate but seemingly coordinated statements

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- February 12, 2017** North Korea announces that it successfully test-fired a new type of medium- to long-range ballistic missile (Pukguksong-2), capable of carrying a nuclear warhead, off the east coast of the Korean peninsula
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- February 13, 2017** Kim Jong-nam, older brother of North Korean leader Kim Jong-un, is killed at Malaysia's Kuala Lumpur International Airport with VX nerve agent, purportedly on the orders of Kim Jong-un
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- February 20, 2017** China's state-run *Xinhua* news agency warned that South Korea's Lotte Group will face severe consequences if it allows the South Korean government to deploy a U.S. anti-missile system on land that now forms part of a golf course it owns
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- February 27, 2017** South Korea's Lotte Group agreed to trade the land needed to host a planned missile shield despite China's recent warning of business consequences should the U.S.-built defense platform proceed
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- March 2, 2017** China National Tourism Administration announces a travel ban, forbidding China-based travel agencies from selling trips to South Korea (including group tours, cruise stopovers and individual travels booked through agencies)
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- March 5, 2017** Lee Jin-seong, chief of King Kong by Starship, told *Yonhap News* that his company experienced a huge drop in sales in the second half of last year, with nothing earned from China due to the political row over THAAD
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- March 7, 2017** According to Lotte Group, the Chinese government has shut down at least 23 Lotte Mart stores in China following Lotte's decision to hand over a golf course to the South Korean government to house the THAAD system
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- March 20, 2017** South Korea's Trade Minister Joo Hyung-hwan told the National Assembly that Seoul had complained to the World Trade Organization (WTO) about China's retaliation against Korean companies over THAAD system deployment, with profits vanishing since October when Beijing restricted Korean entertainers from working in China
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- March 31, 2017** Chinese Defense Ministry spokesperson Wu Qian says response to THAAD will be "not only through words"
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- April 15, 2017** Analysts report that North Korea showcased its latest military hardware, including what appear to be three kinds of intercontinental ballistic missiles, in the capital of Pyongyang to mark the 105<sup>th</sup> anniversary of Kim Il Sung's birth
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- April 16, 2017** U.S. and South Korean defense officials claim that an attempted missile launch by North Korea failed in Sinpo, a port city in eastern North Korea, while U.S. Vice President Mike Pence was en route to South Korea
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SOURCE: *Yonhap News* (2016) for events up until July 8, 2016, *Bloomberg* (2016) for August 2, 2016, *JoongAng Ilbo* (2016b) for August 3, 2016, *The New York Times* (2016) for August 7, 2016, *Xinhua* (2016) for September 28, 2016, *Herald* (2016) for November 25, 2016, *The Korea Times* (2017b) for January 5, 2017, *The New York Times* (2017a) for January 23, 2017 *Reuters* (2017a) for February 12, 2017, *BBC* (2017) for February 13, 2017, *Reuters* (2017b) for February 20, 2017, *Financial Times* (2017a) for February 27, 2017, *Yonhap News* (2017d) for March 2, 2017, *Yonhap News* (2017b) for March 5, 2017, *CNN Money* (2017) for March 7, 2017, *Reuters* (2017c) for March 20, 2017, *Hankyoreh* (2017) for March 31, 2017, *The New York Times* (2017b) for April 15, 2017, *CNN* (2017) for April 16, 2017

On the other hand, some industry members observe that THAAD simply provides China a “perfect excuse” to rein in *Hallyu*, as they note China’s State Administration of Radio, Film and Television (SARFT) has sought to curb *Hallyu*’s popularity as Korean dramas were being aired during primetime hours (*The Korea Times* 2017a). High-profile cancellations of Koreans in mainland China include three performances by soprano Jo Sumi (consequently replaced by Chinese sopranos) and popular K-pop groups such as EXO, while *Hallyu* stars such as Jun Ji-hyun have been replaced by Chinese stars for upcoming advertising campaigns (*Herald* 2016). These events, combined with a power vacuum left by former President Park Geun-hye’s ousting, may be interpreted as the opportunistic sanctioning of *Hallyu* influence on the mainland.

Simultaneously, retaliation has not been limited to *Hallyu*. Anti-Korean sentiment has started chipping into profits for Korean automobile makers such as Hyundai Motor and Kia Motors (*Financial Times* 2017b), while the Chinese government has also shut down at least 23 Lotte Mart stores in China following Lotte’s decision to hand over a golf course to the South Korean government to house the THAAD system (*CNN Money* 2017). In response, Korea’s Trade Minister has complained to the World Trade Organization (WTO) about China’s retaliatory actions against Korean firms operating in China, but it is too early to tell what type of countermeasures are available (if any).

## 2. Potential Scenarios for the Future of *Hallyu*

Given an effective ban of *Hallyu* products and consumption in mainland China, we have already seen a shift in rhetoric and target trajectory from China to Southeast Asia. While the original strategy of *Hallyu* 4.0 targeted China as well as Southeast Asian nations, CJ E&M has announced that it will open new channels exclusively for broadcasting *Hallyu* content in key markets in Southeast Asia, including Singapore, Malaysia, Vietnam and Hong Kong (*Yonhap News* 2017b, *Yonhap News* 2017c). Barring any major turn of events, a base case scenario would assume that China’s ban would continue for the foreseeable future. Along this vein, a recent study by Korea Development Bank’s Industrial Technology Research Center reported that “the loss to Korean industry would be \$10 billion including \$7.4 billion from duty-free shops and the tourism industry and \$2.6 billion from all other industries” (*The Korea Economic Daily* 2017). Under these conditions, firms with relatively lower exposure to the Chinese market would fare better than counterparts with a higher revenue bias in the market.

Following the departure of former President Park Geun-hye, national security and THAAD system deployment have taken center stage in the Korean presidential election campaign. With most candidates leaning towards system deployment (or at least delaying an immediate scrapping of deployment plans)

and the North continuing missile tests, it is unlikely that we will see a retraction of THAAD deployment plans in the near future. As this would be a necessary requirement for Beijing to resolve disputes regarding Korean products (*The Korea Times* 2017b), there may be little upside potential for Korean firms in general and the *Hallyu* industry in particular (at least with regards to the Chinese market).

Regarding downside risks, losses to Korean industry may total around \$20 billion, including \$11.7 billion from the duty-free and tourism industries and \$8.3 billion for other industries, in the event of greater retaliation by the Chinese government (*The Korea Economic Daily* 2017). On top of the potential for growing losses in China, continued tourism bans to Korea would depress local industries further and may spill over into the education sector. With a large number of Chinese students studying in Korean universities, more extreme measures may include bans for Chinese nationals studying in South Korea or difficulties obtaining student visas. Just as troubling, Chinese nationals studying in Korea may face criticism from family and friends critical of South Korea, while facing discrimination by local Koreans who view China as a bully (*Global Times* 2017). If *Hallyu's* strength was in building understanding and appreciation of Korean culture and industry to a more global audience, an extended censure may effectively undo two decades of cultural exchange and diplomacy.

With regards to whether and when China will lift its ban on Korean content, we can glean some lessons from history. Northeast Asia is no stranger to the use of hard power in punishing neighbors. In fact, it was only in 1998 that South Korea began lifting a ban on imports of Japanese cultural products, a result of anti-Japanese sentiment regarding Japanese colonization between 1910 and 1945 (*The Japan Times* 2003). Territorial disputes between China and Japan led to Chinese boycotts of Japanese products in 2010 and 2013, lasting between one and several months (*Bloomberg* 2013). But at this point, there are too many moving pieces to conclude with certainty the future trajectory of *Hallyu*. Among others, these include: (1) the outcome of the Korean presidential election of 2017, particularly with regards to stances on THAAD system deployment; (2) clear indications about United States foreign policy and interests in Northeast Asia; (3) the political and military situation in North Korea; and (4) China's appetite for continued and/or expanded retaliation.

It is clear that skewed dependence on any one market is risky for any business or industry, and the shift to Southeast Asia and other regions will likely continue going forward. How soon Korean firms find good local partners, and how mutually-beneficial those partnerships are, will be a key litmus test for *Hallyu's* future growth. And while we can be cautiously optimistic about friendlier relations between China and Korea sometime in the future, it may be unwise to count on a full and swift recovery anytime soon.

#### IV. CONCLUSION AND AVENUES FOR FUTURE RESEARCH

This paper highlighted the success of *Hallyu* over the past two decades through the theoretical perspectives of neoliberalism, cultural nationalism and cultural hybridity. Strong linkages between Korean corporations and cultural power/influence also contributed to the announcement of *Hallyu* 4.0, a strategy that aims to incorporate specific aspects of Korean culture into everyday life. To date, *Hallyu*'s success was particularly noticeable within the Asian region, and has been specifically acute in China as evidenced by the large number of Chinese tourists and overall product consumption.

But given Sino-(South) Korean tensions with Korea's announcement to deploy a Terminal High Altitude Area Defense (THAAD) system, we have begun to witness a clash between Korean soft power and Chinese hard power. While events are still unfolding, this paper highlighted the recent tensions between Korea and China, specifically with respect to THAAD deployment, and outlined potential implications for businesses and policymakers through preliminary case simulations. As this is a case in progress, we will have to wait and see how the *Hallyu* industry responds to these new regional dynamics, and whether the soft power of *Hallyu* diplomacy will be able to match China's hard power politics.

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16R03D

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## APPENDIX 1. REPUBLIC OF KOREA – ANNUAL FOREIGN TOURIST TREND (2004 – 2016)

Nationality	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
China	627,264	710,243	896,969	1,068,925	1,167,891	1,342,317	1,875,157	2,220,196	2,836,892	4,326,869	6,126,865	5,984,170	8,067,722
Japan	2,443,070	2,440,139	2,338,921	2,235,963	2,378,102	3,053,311	3,023,009	3,289,051	3,518,792	2,747,750	2,280,434	1,837,782	2,297,893
United States	511,170	530,633	555,704	587,324	610,083	611,327	652,889	661,503	697,866	722,315	770,305	767,613	866,186
Taiwan	304,908	351,438	338,162	335,224	320,244	380,628	406,352	428,208	548,233	544,662	643,683	518,190	833,465
Hong Kong	155,058	166,206	142,835	140,138	160,325	215,769	228,582	280,849	360,027	400,435	558,377	523,427	650,676
The Philippines	213,434	222,655	248,262	263,799	276,710	271,962	297,452	337,268	331,346	400,686	434,951	403,622	556,745
Thailand	102,588	112,724	128,555	146,792	160,687	190,972	260,718	309,143	387,441	372,878	466,783	371,769	470,107
Malaysia	93,982	96,583	89,854	83,049	83,754	80,105	113,675	156,281	178,082	207,727	244,520	223,350	311,254
Indonesia	61,506	62,294	62,869	67,450	81,001	80,988	95,239	124,474	149,247	189,189	208,329	193,590	295,461
Vietnam	33,738	45,455	46,077	60,262	76,402	75,978	90,213	105,531	106,507	117,070	141,504	162,765	251,402
Russia	156,890	143,850	144,611	140,426	136,342	137,054	150,730	154,835	166,721	175,360	214,366	188,106	233,973
Singapore	85,202	81,751	88,386	93,951	95,960	96,622	112,855	124,565	154,073	174,567	201,105	160,153	221,548
India	56,966	58,560	62,531	68,276	73,130	72,779	86,547	92,047	91,700	123,235	147,736	153,602	195,911
Canada	77,597	86,402	92,791	98,116	104,022	109,249	121,214	122,223	128,431	133,640	146,429	145,547	175,745
Australia	57,834	63,463	68,328	80,528	96,138	99,153	112,409	122,494	128,812	123,560	141,208	133,266	151,979
United Kingdom	65,981	72,581	75,397	78,656	87,014	91,165	97,510	104,644	110,172	120,874	131,080	123,274	135,139
Germany	68,850	74,962	76,407	85,330	91,555	97,691	98,119	99,468	102,262	100,803	100,624	100,182	110,302
Others	702,100	702,813	698,387	814,031	891,481	810,463	974,988	1,062,016	1,143,424	1,193,930	1,243,217	1,241,243	1,416,315
Total	5,818,138	6,022,752	6,155,046	6,448,240	6,890,841	7,817,533	8,797,658	9,794,796	11,140,028	12,175,550	14,201,516	13,231,651	17,241,823

SOURCE: Korea Tourism Organization