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and the South Korean Online  
Game Companies**

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# **Going Global Locally: State Market and the South Korean Online Game Companies**

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## Introduction

Much of the attention in the field of political economy and communication has focused on the global reach of western media conglomerates in the global marketplace (McPhail, 2006; Negus, 2004; Scott, 2005; Wasco, 2005). The advancement of new communication technologies allows western major media giants to conduct economic activities across various media platforms, including mobile, cable TV and online game. Meanwhile, traditional media companies such as, Disney, Sony and Time Warner, continue to conduct aggressive marketing strategies in order to extend their influence from existing media industries into the new media sector. The recent merger and acquisition (M&A) activities of these companies include News Corporation and Google and their respective acquisitions of emerging new media companies MySpace.com and YouTube<sup>1</sup> in 2006.

Recent emerging new media economies in Asia complicate the issue of power in the debate of cultural imperialism and media globalization (Scott, 2005; Miller, 2001; Tomlinson, 1997). Extending from the discussion of the imbalance of power in the cultural imperialism thesis, communication scholars have focused on the influence of one way information flow in the New World Information and Communication Order (NWICO) thesis<sup>2</sup>. In the media globalization thesis<sup>3</sup>, scholars look for a theoretical framework that goes beyond a single direction of information flow. They try to explain the complex web of interconnections in today's convergent media environment arguing that globalization focuses on the market performance of large media corporations and their expansion in the global marketplace (Gershon, 1997; Hollifield, 2004). The global marketplace for these companies will grow to a certain scale because the global entertainment and media (E&M) industry has indicated rapid growth with an increase of a 6.4% compounded annual growth rate and is expected to grow the accumulated revenue to \$2 trillion in the global E&M in 2011 (Scholes & Schooler, 2007).

Some scholars have expressed concern about the potential disappearance of local (national) cultures. Western media conglomerates extend their economic activities to other national territories. Transnational media companies (TNMCs) create cultural homogeneity through audience consumption in the global E&M industry (McChesney, 1998). A critical response to the growth of western corporate culture is seen in the globalization debate when the power of nation-state is seriously discussed in the writings of Castells (1997), Sassen (2003), Robinson (2003) and Tomlinson (1997). Nation-state is argued to be the main social agent that safeguards national interest in many local societies. It is argued that nation-state determines a direction of national development by deciding to either directly integrate into or disengage from the world economy when facing TNMC's global influence (Audretsch & Bonser, 2002; Simai, 2003). The national government can maintain the country's autonomy by designing effective cultural policies that contribute to the globalization of a nation (Robertson & White, 2003; Robinson, 2003;

Sassen, 2003).

This paper examines the process of globalization in the Asian context from the corporate perspective. Specifically, the paper studies the pattern of global expansion among South Korean online game companies. The paper argues that new media industries in Asia reflect a state-led development model. This model shows that countries with a limited size of domestic markets are able to participate in the world economy through the development of new technology. The paper studies the collaborative process among the state and the local firms which have led to the success of South Korea online game industry in the world market. This paper examines the local factors that form the industry dynamics in the South Korean context and uses this case to elaborate on a unique example of globalization that can be free from the influence of western multinational companies<sup>4</sup>. This paper applies John Urry's theoretical concept of global complexity. Urry's framework of the Globally Integrated Networks (GINs) explains globalization based on the market development of transnational companies. This paper tries to unpack the meaning of "global complexity" by offering specific industry developments of globalization in the South Korean context.

The paper will first begin with an overview of the South Korean online game industry since 1990s. It then analyzes the industry structure by dividing the firms in the industry into three tiers: large scale, medium size and small-sized companies, followed by a discussion on global expansion strategies and international market performances of successful South Korean online game companies. The paper concludes with discussion about the unique pattern of global expansion in the South Korean context. It contends that globalization in the South Korean context relies upon the collaboration between state and the local companies to produce an interconnected nation-based "globally integrated network" (GIN).

### **Globalization and the Globally Integrated Networks (GINs)**

Globalization represents an economic trend that prioritizes privatization, deregulation and liberalization in the process of global market integration. Audretsch and Bonser (2002) argue that globalization means a multiplicity of extraterritorial activities and their local effects. As globalization includes multi-directional flows of ideas, images, goods, services and people, communication networks become the necessary mediators to facilitate and maintain these flows. The shaping of a country's particular industry represents the negotiation between the transnational dynamics and the local forces from the social, cultural, economic and political levels (Sassen, 2003). While the full picture of globalization may not be captured by the nation-state paradigm, internationalization of productive forces within an institutional system deserves attention as multinational firms generate different forms of globalization in their global production (Sachs, 2003).

In the book of *Global Complexity*, Urry (2003) calls for a "complexity approach" to study globalization process. Urry argues that the information society is a complex network based on global activities of either firms or segments of firms. "Large corporations are internally decentralized as networks in the global market with relevant small and medium businesses connected to their networks (ibid, p. 9)." Many corporations develop strategic alliances and partnerships with other companies. As the corporations go global, these companies lead to a "glocalization" effect<sup>5</sup>. Both the global and the local are bound together in a dynamic relationship. The huge flows of information resources are drawn together and move backwards and forwards between the global and the local.

Urry considers globalization a practice of complexity. Most of the firms form their self-organizing global networks within specific regions, where local clusters are developed

based upon supporting industries. Such organizational networks reflect the various dimensions of global complexity that Urry further identifies as Globally Integrated Networks (GINs) (ibid, p. 56). He argues that the GINs consist of enduring and predictable networked connections between people, objects and technologies. Different global enterprises and organizations form their own GINs, which consist of major MNCs including McDonald, American Express, Coca-Cola, Microsoft, Sony and Greenpeace. When a company's GIN is formed in the international marketplace, the company is capable of creating a branding life of its own to connect with the company's global consumers<sup>6</sup>. To Urry, globalization is the formation of different GINs. He also argues that globalization leads to various dynamic effects in different societies (p. 96).

As mentioned earlier, much of Urry's views on globalization center on the concept of complexity and non-linear corporate developments in global systems. As Urry considers globalization a combination of "global fluid networks" (p. 40), this paper argues that there is need to further delve into the context of GINs so their specific meaning can be better understood. This paper argues that as the GINs function differently across various organizational settings, it is necessary to place the development of a particular GIN in a specific economic and political context so that the meaning of "global complexity" can be further understood. This paper intends to use the case of South Korea to examine the specific form of globalization contributed by the country's online game companies and, therefore, offer an Asian perspective to respond to John Urry's theory of "global complexity". The paper proposes an alternative framework to understand the formation of the GINs in Asia by emphasizing the idea of state market<sup>7</sup> for Asian companies, which is used to establish their "globally integrated network" in new media industry.

### **Globalization in South Korea**

The globalization of media industries in South Korea started in mid-1990s when most governments in Asia deregulated and liberalized their telecommunication and media industries. Globalization was the major focus for the South Korean government after the country faced the economic crisis of 1997. During the crisis, the South Korean government adopted a technological approach by maintaining advanced IT infrastructure to establish free market competition (Jin, 2006). Since 2001, South Korea has maintained its lead in broadband penetration among the OECD countries. The government follows a neo-liberal economic logic to facilitate a free market structure. By lifting laws and regulations that originally prevented foreigners from acquiring securities, the Korean government further opened up its market to foreign direct investment.

In 2005, there were 17,724 foreign investors registered in Korea (Ministry of Information and Communication, 2005). Foreign direct investment in the game industry includes game companies such as Electronic Arts, Blizzard from the US, Shanda from China, and Softbank from Japan. These companies have entered the Korean market through partnership with local game companies through M&A or joint venture activities. The FDI continued to increase in the ICT sector and South Korea has become a test-bed for foreign multinational companies to develop business models for their new ICT products. For example, in 2005, Microsoft opened a mobile research center in Korea. Market deregulation and political liberalization has led to regulatory framework that involves strong state participation in the development of IT infrastructure because the South Korean government believes that "strong development of IT infrastructure will bring qualitative changes in the economic paradigm" (Ministry of Information and Communication, 2004).

In the late 1990s, the South Korean online game industry started to become profitable. This industry benefited from an early development of arcade technology in 1970s, generally speaking, South Korea has been developing its game industry for 30 years. The country started a console game industry in 2002 and the PC game market was formed in 2005. The online game market was formed at the end of the 1990s. Among all the different game industries that South Korea has attempted to develop, online games became the best developed industry due to successful market integration when entering into the global gaming market in the early 2000s.

At the time when South Korea started its online gaming industry, the global game industry was already a saturated market, with a focus on console gaming. Microsoft, Sony and Nintendo were the major transnational companies in the global market. In 2000, as South Korea first started the gaming industry, there were only about 30 to 50 game developers in the domestic market. Blizzard and Electronic Arts were the major two competitors in the global online game market (Interview, Jee, 2006).

Due to the impact of the 1997 Asian economic crisis, the South Korean government decided to concentrate on the development of IT infrastructure to enhance the country's economic competitiveness. This technological advancement benefited the online game companies in South Korea. Even game products of imperfect quality became popular among most of the South Korean online game players. For instance, *Lineage* and *Kingdom of Wind* are two successful game titles that have been in the market for more than ten years. The long life cycle of the online game products accumulated high profit for the local companies NCSOFT and Gravity (Wi, 2006). Today, NCSOFT is one of the world's largest online game publishers while Japanese Softbank purchased Gravity for \$435 million US dollars in 2004.

In 1999, the total revenue generated by the South Korean online game market was \$1.3 billion US dollars (Interview, Lee, 2006). The South Korean online game industry continued to develop and reached a production value of \$849 million US dollars in 2004. This development includes a rapid increase in the number of games produced per year, from 22 game titles in 2000 to 1,615 game titles in 2004 (Ministry of Culture and Tourism, 2005). Moreover, by 2006, there were more than 1,500 game companies, ranging from big size publishers to small size developers. Due to fierce competition, collectively these companies produce altogether approximately 100 new games every year. Only about 10 games per year break into the existing market and achieve success (Interview, Director Chung, 2006).

The 2006 industry has about 30 companies at the top tier, earning around eighty percent of the total revenue in the market. These companies were game developers and publishers maintaining their production in-house. At the medium size there are around 200 companies. They specialized in game development and distribution. Another 1,000 game companies are small developers, producing graphics, hosting web services and making simple board games (Interview, Director Chung, 2006).

Among the top tier companies, NCSOFT gained most of the profits in the South Korean online game market. The company's best game, *Lineage*, generated a monthly revenue of \$10 million US dollars in 2006, while the company's total revenue in 2006 was \$406 million US dollars, of which fifty percent was pure profit. NCSOFT collected its whole revenue in the domestic market from the 15,000 PC bangs (internet cafés) in South Korea.

## The South Korean GINs

This section analyzes the market performance of most of the top tier online game companies in the domestic online game market of South Korea. The Globally Integrated Network of the South Korean online game companies can be discussed from the perspective of the local firms and their global market performance. On the local level, the free competition market environment contributes to the success of the South Korean companies in the domestic market. On the global level, the international market expansion of these companies show an active cross border economic trade and cultural exchange of the South Korea's media globalization.

Discussion of the South Korean GIN is based upon fieldwork interviews that I conducted with interviews with industry professionals and corporate managers in Seoul, South Korea in from June 3, 2006 to June 17, 2006. The companies included NCSOFT, NHN, Nexon, Neowiz, Actozsoft, JCE Entertainment and Wemade. These companies are mostly large scale companies and have collectively occupied most of the online game market in South Korea.

NCSOFT is South Korea's largest company with successful game titles of *Lineage I*, *Lineage II* and *Guild War*. Nexon is another successful company, whose title *Maple Story* has captured the MMOG market among young players in both South Korea and Japan. Neowiz emerged into the South Korean market by breaking the first mover effect of NCSOFT and has grown from middle size company to large size company with success in new market niche such as the First-person shooting (FPS) genre. Neowiz also collaborated with major international game publisher, Electronic Arts, to expand the company's international reach by producing EA's online version of soccer game FIFA Online in 2006. Actozsoft and Wemade have performed well in the Chinese market by releasing successful localized games, *Legend of Mir I* and *Legend of Mir II*, in China.

### The local factors

#### 1. Product

The local factors that contribute to the development of the South Korean online game industry can be broken down into four dimensions: (1) product, (2) ICT environment, (3) genre and (4) integration. In terms of product quality, Korean online games are reputable for their game design that captures the taste of Korean consumers. As Korean culture focuses upon the value of social bonding, Korean game players tend to enjoy playing games and killing monsters together with their friends in public places, rather than consuming the online game individually at home.

The game of *Lineage* is a game with a graphic style that appeals to most Korean game users. This game offers strong community structure to allow Korean gamers to form groups in their game plays. The attraction of playing online game as a social event soon led to the success of *Lineage* when the game first entered the domestic market in 1997. One gamer who once won first place award in a South Korean game competition complimented the quality of *Lineage* as the following:

*The producer of Lineage makes fantastic graphic. This game is very violent but it can be also be very addictive. When I play Lineage, I feel like I am making my own movie. I am easily involved in the scenario. For instance, there are two gates of the castle and one of them was surrounded by opponents. Then I take some magicians to fight with them. Some opponents attack another game.*