THE IMPACT OF KOREAN WAVE ON SOUTH KOREA'S EXPORT OF CONSUMER GOODS TO ASEAN-5 COUNTRY

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ABSTRACT

This study aims to assess the impact of the Korean Wave on the export of consumer goods from South Korea to the ASEAN-5 countries (Indonesia, Malaysia, Thailand, Singapore, and the Philippines) from 2010 to 2020. This study took into account various factors to analyze the export dynamics, such as gross domestic product (GDP) per capita, interest rates, Google search trends, and the geographical distance between countries. Cultural goods exported from South Korea were used as a measure of the Korean Wave, employing the gravity model and the fixed effects model (FEM) for analysis. The results of this study indicated a positive impact of the Korean Wave variable on the export of South Korean consumer goods. Additionally, the findings revealed that variables such as South Korea's GDP per capita, distance, and exchange rates had a negative impact on the export of such goods. Furthermore, this study highlights the positive impacts of the ASEAN-5 countries' GDP per capita and Google search trends on the export of South Korean consumer goods.

Keywords: *Korean Wave, Exports, Consumer Goods, Fixed Effect Model, Gravity Model*

JEL: F23; F31; G15

Introduction

Consumer goods or consumables are the final products of production that can be directly consumed by consumers for personal or family purposes. In general, consumer goods are divided into four types, namely shopping goods/products, convenience goods/products, specialty goods/products, and unsought/unwanted goods. The existing categorization is formed based on consumer behavior in shopping from several aspects, including how and what efforts consumers make to decide to buy a product (buying decision), the attributes used by consumers in transactions, and purchase frequency (Tjiptono, 1997).

To satisfy the needs of consumer goods, export and import activities between countries are necessary. In general, the motive for conducting international trade activities is the possibility of achieving trade gains or benefits which are manifested in the occurrence of changes in the consumption of each consumer in the country that conducts trade so that the goods received are more in accordance with consumer preferences and lead to increased

satisfaction for all parties. In addition to that, exports of consumer goods between countries are influenced by several things, namely consumer preferences in terms of domestic products and foreign products, prices of domestic and foreign goods, income of domestic and foreign consumers, domestic exchange rates against foreign currencies. country, and government policies towards international trade and culture (Park & Choe, 2009).

A non-economic aspect that can have a significant impact on international trade is culture. Bala & Van Long (2005) argued that consumer choices related to international trade in cultural goods (music, television, broadcast goods, etc.) are strongly influenced rising trends. However, culture does not only influence the flow of international trade, but also requires cultural proximity between the two countries. In addition, trade between countries with cultural proximity is also influenced by several factors, such as physical distance between trading partners, gross domestic product (GDP), and value and interest rate (Kimura & Lee, 2006).

South Korean popular culture, especially television dramas and music, has spread all over the world. The phenomenon of the spread of love for South Korean culture is known as the "Korean Wave". Chen (2016) stated that the Korean Wave is a South Korean cultural phenomenon that is followed by many people around the world. According to Park (2014), many Asian countries experienced the phenomenal influence of Korean culture called "Hallyu" or "Korean Wave" through various movies, television dramas, and songs. The term "Hallyu" originated in the Chinese media in the late 1990s as "Hán liú" to describe the rapidly growing popularity of Korean television dramas in neighboring countries such as China, Taiwan, Japan, and later in many Southeast Asian countries. Two of the television dramas that are credited with sparking the Korean fever are Winter Sonata and Jewel in the Palace (Dae Jang Geum). Winter Sonata generated an impressive economic impact of US$1.1 billion in 2004, most of which came from the sales of goods related to the drama.

Korean Wave contents serve as an empirical gauge impacting the export of South Korean consumer goods (Kim et al., 2021). Notably, the surge in the export of Korean Wave contents have coincided with a rapid increase in the export of South Korean consumer goods (Huh & Wu, 2017). For instance, the success of the music group Bangtan Sonyeondan (BTS) contributed to an average annual increase in the export of consumer goods export of US$ 1.117 billion, or roughly 1.7% of the total export of consumer goods. Cultural goods, which function as a representation of the Korean Wave contents, are recognized as a non-economic influencer in bilateral trade relations between countries (Huh & Wu, 2017). The dissemination of cultural goods, including Korean Wave contents, creates a platform for shared emotions between South Korea and culturally aligned nations. This dissemination allows consumers in other nations to identify with the same cultural identity, fostering a sense of belonging and closeness to South Korean culture (Felbermayr & Toubal, 2010).

Therefore, further research to delve into the impact of the Korean Wave on the export of consumer goods from South Korea to ASEAN countries, particularly the ASEAN-5 countries, is necessary. The forthcoming investigation examines the correlation between South Korean exports of movies, publications, music, and broadcasting, which serve as a representation of the Korean Wave, and their influence on the export of consumer goods in the ASEAN-5 countries. The dataset used in this study covers the period from 2010 to 2020. The primary objective of this study is to answer the following research question:

1. How does the Korean Wave impact South Korea's export of consumer goods in ASEAN-5 countries?

Literature Review

Cultural Economics

Cultural economics is a branch of economics that focuses on the relationship between culture and the economy. In cultural economics, 'culture' is defined by the shared beliefs and preferences of any group. Issues in cultural economics include whether and how important culture is to economic outcomes and how it relates to institutions (Peacock et al., 1994). As the field of behavioral economics develops, the role of culture in behavioral economics is increasingly shown to cause significant differences in decision making as well as in the management and valuation of assets.

The difference between cultural economics and traditional economics primarily lies in their perspectives on decision-making processes. Traditional economics views decision-making as involving both implicit and explicit consequences. In contrast, cultural economics argues that individuals do not make decisions based solely on immediate implicit and explicit factors. Instead, they are guided by trajectories, or a set of patterns and norms accumulated over time, that shape and influence how they make decisions. These trajectories, established over years, serve as a framework that guides individuals in their decision-making efforts (Towse & Hernández, 2020).

International Trade Theory

Salvatore (2019) expressed his opinion regarding international trade, which is defined as buying and selling transactions carried out by people between countries based on the principle of agreement. In this theory, what is meant by society is between individuals, individuals and state governments, or between state governments. The main motivation for carrying out international trade is the desire to gain profits (Salvatore, 2019). Trade involves one or two countries that have differences in supply and demand. These differences give rise to trade agreements, which then play an important role in a country's economy because international trade can play a role in developing a country, increasing domestic production, and increasing the procurement of capital goods to support domestic industry country (Samuelson, 2004).

All countries that carry out international trade have the goal of making a profit and are based on other factors, namely differences in resources between countries and countries trading because they achieve economies of scale (Krugman & Obstfeld, 2000). This theory can be interpreted to mean that if a country only produces certain goods instead of all kinds of products, the quantity and efficiency of the production will be greater. This theory assumes a relationship between two countries, two commodities and no barriers, perfect mobility within the country, perfect competition for all commodities, and no transportation costs (Salvatore, 2019).

Gravity Model

The gravity model was developed by Anderson in 1979. The model is used as an instrument to describe trade patterns between two countries which are characterized by GDP and distance between the two regions. The gravity model refers to the principle of gravity adapted from Isaac Newton's law of universal gravitation, which argues that the force of attraction between two objects is influenced by the mass and distance of the object, thereby making the international trade model similar to Isaac's opinion (Frede & Yetkiner, 2017). The mass of an object is compared to the GDP, while distance represents the distance between two countries. The functional form of international trade according to Jan Tinbergen is as follows (Fejzic & Covrk, 2016).

$$F_{ij} = G\frac{M_i M_j}{D_{ij}}$$ (1)

Where F_{ij} is the trade flow or trade value from i to j, M_i and M_j are GDPs of each country representing the size of the economy in that location, and D_{ij} is the distance between country i and f.

Previous Studies

Park & Choe (2009) examine how Korean cultural exports to Japan affect total exports. Park and Choe (2009) demonstrate the cumulative impact of cultural exports on total exports in the Asia-Pacific region. Kang (2023) analyzes the impact of Hallyu on Korean exports and investments in Southeast Asia from 1997 to 2007. The results how that the export of Korean cultural contents has been increasing in relation to the total exports and foreign direct investments. The two studies focus on the export of Korean culture to the East Asia and Pacific region.

Kim & Ahn (2012) examine how South Korean exports of cultural goods, a measure of cultural proximity, can influence total exports. The estimation results show that South Korean exports of cultural goods significantly influence total current exports. Although the overall positive impact of cultural exports is greater for non-durable consumer goods, exports of durable goods are also positively influenced. Meanwhile, Kim & Ahn (2012) in their study show that exports of cultural goods are larger in high-income countries. In the case of high-income countries, the effect of increasing exports is greater for durable consumer goods. However, in the case of low-income countries, it is greater for non-durable consumer goods. Asian countries are more positively affected by South Korean exports of cultural goods than in other regions.

Park (2015) examines the trade creation effect of the Korean Wave on South Korean cosmetics exports and found that the Korean Wave had a positive effect on cosmetics exports to ASEAN countries. Huh & Wu (2017) applied the gravity model to examine the effect of Korean Wave contents on the export of consumer goods to 40 countries that account for a high proportion of trade with Korea. Huh & Wu (2017) used the Poisson pseudo maximum likelihood (PPML) for estimation and found a positive relationship with the dependent variable, namely Korean Wave and a positive effect of an increase in the Korean Wave exports.

Data and Research Methods

Research Design

The data were obtained using quantitative secondary data collection techniques including data from South Korea and ASEAN-5 countries. Qualitative data were obtained from literature studies using supporting textbooks and publications. The years considered in this study were from 2010 to 2020. The STATA14 software was used for data processing.

Model Specification

This study is based on a model developed by Tinbergen. Tinbergen (1962) proposed that the size of bilateral trade flows between two countries can be estimated using the 'gravity equation', which is derived from Newton's theory of gravitation. This model has been carried out in previous research using consumer goods export variables as the dependent variable and GDP, distance, real exchange rate, and consumer goods exports as independent variables. The model in this study can be expressed as follows:

$$\ln X_{kjt} = a_{kj} + a_1 \ln GDP_{kt} + a_2 \ln GDP_{jt} + a_3 \ln DIST_{kj} + a_4 \ln EXCHR_{kjt}$$
$$+ a_5 \ln TRND_{jt} + a_6 \ln CULT_{kjt} + \varepsilon_{kjt}$$

(2)

Where:

lnX_{kjt} : Number of consumer goods exports from South Korea to Country J in year T (log value)

$lnGDP_{kt}$: South Korea's Gross Domestic Product (PDB) from T year (log value)

$lnGDP_{jt}$: Country J's Gross Domestic Product (PDB) in T year (log value)

$lnDIST_{kj}$: Distance from South Korea to Country j (log value)

$lnEXCHR_{kjt}$: The exchange rate of Country J against the Korean won in year T (log value)

$lnTRND_{jt}$: Number of search trends for the keyword "Korean Wave" on Google Trends in Country J in year T (log value)

$lnCULT_{kjt}$: Number of exports of cultural goods from South Korea to Country J in year T (log value)

Result and Discussion

Table 1 shows the results of the panel data model regression, which tests the common effect model, fixed effect model, random effect model, followed by selecting the best model.

Table 1: Results of the Common Effect Model, Fixed Effect, and Random Effect Regression

Independent Variables	Model		
	CEM	FEM	REM
C (Million)	4.91	2.09	10.94
LNGDP_SK	0.7350*	-0.5574	0.2680
LNGDP_COUNTRY	-0.817*	1.7923***	-0.1072**
LN_DIST	7.3300***	-6.3500	-2.6800
LN_ER	-0.0009***	-0.0005**	-
LN_TRENDS	0.1321*	0.1413	-
CULTURE	2.1400	0.0001	10.9468
R-Squared	0.4153	0.7080	0.1764
Adj R-Squared	0.3423	0.6417	0.1105
Prob (F-Stats)	0.0001	0.0000	0.0422

Level of Significance: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Subsequently, the best model was selected using the Chow and Hausman tests. Based on the tests, it was concluded that the fixed effect method is the best method in this study. The following step was to test the classical assumptions.

Table 2: Chow Test Results

Prob > F	0.0000
H0: CEM	
H1: FEM	

Table 3: Hausman Test Results

Prob > F	0.0211
H0: REM	
H1: FEM	

The classical assumptions were tested using multicollinearity and heteroscedasticity tests. According to Ekananda (2016), autocorrelation tests do not need to be performed on panel data with a fixed effect model because autocorrelation tests on panel data produce multiple values in one model, invalidates the results. The first step was to carry out a multicollinearity test which shows a mean VIF of less than 10. The relationship between all independent variables in this study shows a value of less than 0.9. This suggests that this model did not exhibit any signs of multicollinearity. The results of the multicollinearity test are presented in Table 4.

Table 4: Multicollinearity Test Results

	LNGDP_SK	LNGDP_COUNTRY	LN_DIST	LN_ER	LN_TRENDS	CULTURE
LNGDP_SK	1	0.075000	-0.040858	-0.045932	-0.429888	-0.147529
LNGDP_COUNTRY	0.075000	1	0.479708	0.414437	-0.047069	0.294044
LN_DIST	-0.040858	0.479708	1	0.837682	0.015351	0.203861
LN_ER	-0.045932	0.414437	0.837682	1	0.102127	0.054911
LN_TRENDS	-0.429888	-0.047069	0.015351	0.102127	1	-0.224136
CULTURE	-0.147529	0.294044	0.203861	0.054911	-0.224136	1

The following step was to carry out a heteroscedasticity test with the hypothesis that if the R-squared observation shows a value of more than 0.05, there is no heteroscedasticity problem, and vice versa. Based on the results of the Breusch-Pagan-Godfrey heteroscedasticity test in Table 5 below, the R-Squared observation shows a value of more than 0.05 or 5%, which indicates that there is no heteroscedasticity problem.

Table 5: Heteroskedasticity Test Results

F-statistic	1.868631	Prob. F(5,49)	0.1170
Obs*R-squared	8.807777	Prob. Chi-Square(5)	0.1170
Scaled explained SS	12.98146	Prob. Chi-Square(5)	0.0236

The Impact of South Korea's Gross Domestic Product (GDP) per Capita on Consumer Goods Exports

The estimation results showed that the South Korean GDP variable did not have a significant impact on the consumer goods export variable carried out by the ASEAN-5 countries. The results of the regression test showed that the GDP coefficient for South Korea is -0.557414. This indicates that the relationship between South Korea's GDP and consumer goods exports from the ASEAN-5 countries is negative or reversed. If South Korea's GDP increases by one percent, consumer goods exports from ASEAN-5 countries will decrease by -0.557414 percent ceteris paribus. This is different from the research hypothesis which states that the GDP variable has a significant positive impact on consumer goods exports from South Korea to ASEAN-5 countries.

The Impact of ASEAN-5 Countries' Gross Domestic Product (GDP) per Capita on Consumer Goods Exports

The estimation results showed a significant impact of the GDP per capita of ASEAN-5 countries on the export of consumer goods from South Korea to these countries. The coefficient value, reported as 1.792339, indicates that for every one percent increase in the GDP of ASEAN-5 countries, there is an associated 1.792339 percent increase in the export of consumer goods from South Korea to these countries.

The GDP per capita of importing countries, in this study the ASEAN-5 countries, describes the demand side of the countries purchasing goods. This variable can also describe the market size of the importing countries. Appleyard and Field (2014) state that the higher the GDP of an importing country, the higher the capacity of the country to import goods. The results of this study showed that the GDP of the importing country had a significant and positive impact on the increase of consumer goods exports from South Korea to ASEAN-5 countries. These results are consistent accordance with the theory of the gravity model and previous studies conducted by Kim & Ahn (2012) and Kimura & Lee (2006)

The Impact of Distance between South Korea and ASEAN-5 countries on Consumer Goods Exports

According to the estimation results in Table 7, South Korea's distance to ASEAN-5 countries had no significant impact on consumer goods exports to ASEAN-5 countries. The results of the regression test of the fixed effect model showed that the coefficient of the distance variable, which indicates the distance between South Korea and ASEAN-5 countries, is -6.350008. This indicates that the relationship between South Korea's distance to ASEAN-5 countries and consumer goods exports from ASEAN-5 countries is negative. Therefore, if the distance increases by one percent, exports from the ASEAN-5 countries will decrease by 6.350008 percent, ceteris paribus. This is consistent with the research hypothesis and the theory of the gravity model which states that a country's trade is inversely related to distance.

Supriana (2013) in his study explains that distance is used to measure time as well as transportation and transaction costs. The greater the distance between one country and another, the greater the transportation costs, thereby reducing trade flows. However, this finding is not consistent with a study that found that distance had no significant impact on cultural goods in South Korea (Park, 2014).

The Impact of Real Exchange Rate on Consumer Goods Exports

The results show that the real exchange rate variable has a significant influence on the consumer goods export variable in the ASEAN-5 countries. The exchange rate coefficient is -0.000542, which indicates a negative relationship between the real exchange rate variable and the ASEAN-5 countries' consumer goods exports. Therefore, if the exchange rate increases by one percent, the ASEAN-5 countries' consumer goods exports will decrease by 0.000542 percent, ceteris paribus. This finding is consistent with the research hypothesis which states that real exchange rates have a negative impact on consumer goods exports.

The relationship between exchange rates and exports in the Mundell-Flemming model is negative. According to Supriana (2013), the more expensive a country's relative currency, the more expensive the prices of services and goods originating from the exporting country. An increase in the price of exported goods will result in a reduction in the amount of demand from the importing countries. The results of the analysis showing a significant negative relationship between the exchange rates and exports were also shown by research by Kim et al. (2021) which analyze the trade between Indonesia, the Philippines, and Thailand. The

increase in the exchange rates in this study projects the strengthening of the value of South Korean won compared to Indonesian rupiah, thereby making consumer goods exported from that country more expensive.

The Impact of Search Trends for the Keyword "Korean Wave" on Consumer Goods Exports

The results show that the search trend variable for the keyword "Korean Wave" has a significant impact on the consumer goods export variable for the ASEAN-5 countries with a coefficient of 0.141338. This indicates that the relationship between the search trend variable for the keyword "Korean Wave" and consumer goods exports for the ASEAN-5 countries are positive. Therefore, if the search trend variable increases by one percent, the consumer goods exports for the ASEAN-5 countries will increase by 0.141338 percent, ceteris paribus. This finding supports the research hypothesis which states that keyword search trends have a positive impact on consumer goods exports.

The search trend for the keyword "Korean wave" on Google Trends is a proxy variable for cultural affinity, which shows positive and significant results within one percent. This is consistent with a study by Park (2015) who found that the search trend for the keyword "Korean wave" on Google Trends showed positive and significant results. Therefore, it can be concluded that Southeast Asian people's interest in Korean cultural contents influenced their purchasing behavior toward consumer goods exports from South Korea, which was then followed by people in other parts of the world.

The Impact of Exports of Cultural Goods on Exports of Consumer Goods

The estimation results show that the cultural goods consumption variable has a significant effect on the ASEAN-5 countries' consumer goods export variable at a 10% significance level. The results of the regression test showed that the coefficient for the export of cultural goods variable is 0.000149. This indicates that the relationship between the consumption of cultural goods and export of consumer goods of the ASEAN-5 countries is positive. Therefore, if the consumption of cultural goods increases by one percent, the export of consumer goods of the ASEAN-5 countries will increase by 0.000149 percent, ceteris paribus. This finding supports the research hypothesis which states that consumption of cultural goods has a positive impact on the export of consumer goods. This result is also consistent with the results of previous research by Kimura & Lee (2006), Park & Choe (2009), Bala & Van Long (2005), and Kim et al. (2021).

The consumption of cultural goods influenced by the spread of the Korean Wave has led to an increase in international trade between countries. Consumer tendencies and choices related to the consumption of cultural goods (music, television, broadcast goods, etc.) are closely influenced by the rise of a trend. Products that were initially non-economic in nature, when they have a high demand value, will transform into an industry and develop to encourage the production of consumer goods such as food, beverages, makeup, fashion, medicines, and others. In fact, according to a study by Park (2015), South Korean cosmetic products lead the export value of cosmetic goods to ASEAN destination countries.

Conclusion

Based on the results of the analysis, can be concluded, from the estimation results of the econometric model, the export of cultural goods variable and the Google search trends with the keyword "Korean wave", which is a proxy for the Korean Wave, have a positive impact on the export of consumer goods from South Korea to ASEAN-5 countries between 2010 and 2020, which is consistent with the research hypothesis.

The estimation results also show that South Korean GDP (exporter) had an insignificant negative impact on South Korean consumer goods exports to ASEAN-5 countries between 2010 and 2020, which is not consistent with the research hypothesis. Meanwhile, the GDPs of the ASEAN-5 countries (importers) have a significant positive impact on the increase in consumer goods exports from South Korea to ASEAN-5 countries between 2010 and 2020, which is consistent with the research hypothesis.

The results also show that the real exchange rate variable has a significant negative effect, while the distance variable has an insignificant negative effect on South Korean consumer goods exports to ASEAN-5 countries from 2010 to 2020, which are consistent with the research hypothesis.

Declaration

The author declares that this article was written for the purpose of obtaining a master's degree in Economics from Airlangga University.

Conflict of Interest

The author declares that there are no conflicts of interest in writing this article that might influence the results of this study.

Availability of Data and Materials

All data used in this research were collected from the World Bank's official website. The data can be accessed publicly, ensuring ease of access to the data and can be used by other researchers as a trusted source to authenticate research findings.

Authors' Contribution

This research contributes to empirical testing and examines the influence of interest rates and inflation with a control variable in the form of gross capital formation on economic growth in ASEAN-5 countries.

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