

European Chamber of Commerce in Korea - Christoph Heider, Secretary General



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The European Chamber of Commerce in Korea (ECCK) was founded in 2012, in order to represent the interests of European businesses in Korea. Christoph Heider, secretary general of ECCK, discusses the initial challenges involved in establishing the chamber, as well as his outlook on the challenges and opportunities that the European pharmaceutical industry brings to Korea.

What are the biggest priorities on your agenda today?

My main priority is to set up a fully functional organization. We had to focus on cultivating channels of communication and networks to make our opinions heard and considered. Within two years, the chamber has established relationships with almost all European embassies, major chambers of commerce, and business associations. Starting with a limited number of industry committees, we have now expanded to 13 committees encompassing a broad wealth of expertise, and we aim to add four new committees next year. In 2013 we started to work on cooperation agreements with the main business associations here in Korea. ECCK signed an MoU with the Korean International trade Association followed by agreements with the Federation of Korean Industries, Korea Employers Federation, among others.

The next step is focused on the committee level; ECCK must identify where we need strong cooperation partners for various sectors, like the pharmaceutical and medical technology

industries, where we are working with the Korean Research-based Pharma Industry Association (KRPIA). One of our main targets is to continue extending our membership base. By the end of 2012, ECCK had 166 members, and today we are close to 300 members. We hope that this number will continue to grow. Essentially, besides resetting the chamber, we have focused on financial stability, the establishment of committees, relationship management, media, politics, PR, publications and so on.

What has been the response of the business community in reaction to the newly found chamber?

The support from the industry and embassies has been consistent from the very beginning. In more recent discussions, we have seen a very positive trend in terms of response, and many companies and embassies are impressed at how quickly ECCK has developed.

Korea has established a number of free trade agreements (FTA) with different regions; what is the EU's competitive advantage?

Every region has certain advantages. We can find successful European companies in the automotive industry, namely passenger and heavy duty vehicles. European technology is a competitive advantage in that regard. Korean car manufacturers certainly have great quality too, but in terms of fuel efficiency and design, foreign carmakers have an advantage. European pharmaceutical companies are certainly more advanced in R&D, whereas Korea has historically been focused on generics.

The European sovereign debt crisis has forced many European companies to focus more on exports. Did this coinciding of the crisis and FTA promulgate more exports to Korea?

Korea was actually one of the few countries where GDP did not decrease during the crisis, primarily because of strong exports to China. Before the signing of the FTA with the EU in 2012, Korea had a trade surplus towards Europe; it has since reversed. Now the EU has a trade surplus and Korea does not. Certain exports from Europe to Korea increased like automotive, whereas in others it decreased like textiles. From my point of view, the cause of this change from surplus to deficit is due to changing dynamics in the shipbuilding industry, where Korea has always been very strong. Due to competition from China, Korea has shifted to offshore shipbuilding, where customers are located more in this region rather than in Europe. The remaining exports in the shipping industry like logistics took a bit longer to recover from the crisis, as freight rates were very low for shipping goods for intercontinental shipments. The other reason for this trade imbalance is due to Korean companies now investing heavily outside Korea. We see a shift in production from Korea to

countries like Vietnam. As an example, Samsung has 70,000 employees in Vietnam. This indicates that certain products are not manufactured in Korea anymore, shipped directly from Vietnam to Europe instead.

How much does the pharmaceutical industry within ECCK contribute to Korean GDP?

For the time being, the contribution is relatively small because all ECCK members in pharma and medical devices total about 15. If we consider sales volume, the number could become significant. ECCK does not cover all foreign pharma and medical device companies. But 15 is a good number for us, as all of the main European players are members. As the ECCK also works with companies from the European Free Trade Association (EFTA), we have the potential to include Swiss companies like Roche. While our healthcare membership is small, it is an ongoing process. The number sounds small, but we are working on this – it is not overnight. Furthermore, some pharmaceutical companies prefer to only be members of KRPIA as they do not have enough resources to participate in two different organizations.

As part of the EU FTA, what effect did the lifting of non tariff barriers have on European pharmaceutical companies?

Following the FTA agreement, the Korean government has changed the rules slightly and the situation for non tariff barriers is improving. Nevertheless, the Korean government does not want to completely overhaul this kind of agreement. The pharmaceutical industry has more issues with drug pricing policies. Essentially, the Korean government has a position that their drug pricing policy is simply a policy – with no intention to narrow relations. The government wants to decrease total pharmaceutical drug pricing and to stabilize national insurance health.

How important is the presence of multinationals in Korea in terms of driving economic growth in the coming years?

Multinational pharmaceutical companies consider Korea as a very important part of their strategy. Until several years ago, Korean pharmaceutical companies did not really focus on making new drugs, a task left for multinational companies. That is why the Korean government would like to promote the Korean Pharma 2020 Vision. Developing new drugs requires more money over a longer period of time. That is why the Korean government would like to receive more R&D investments from Korean multinational companies, so that they can promote R&D centers in Korea. In fact, the government often debates about promoting investors and reducing drug pricing; some individuals would like to promote more incentives to multinational companies, who are very important and could potentially benefit the Korean economy and patients more. Others are focused

on saving as much money as possible.

In the current landscape, the vision to grow Korea into a globally relevant pharmaceutical market will not work. Firstly, in the mid-2000s multinational companies started to concentrate research facilities, closing their foreign affiliates and consolidating them close to headquarters. Therefore, I do not see major investment coming to Korea for R&D. Companies will keep their R&D teams centralized, focused in specific hubs. Innovation will not come from Korea, but from foreign R&D locations. Secondly, the reimbursement prices of medicines in Korea are roughly 50 percent of the OECD average. This means that not all new drugs launched by multinationals are also introduced in Korea. While there is a potential link and need for increased medical tourism, in order to ensure that Korean patients have continuous access to innovative drugs, reimbursement prices need to increase. Considering that only 3 out of 100 candidates in the first phase of research make it to a product launch, this cost needs to be refinanced. The pharmaceutical industry in Korea has not yet recovered to the prior price cut level. Companies operate now with up to 20 percent less headcount in the pure pharma area.

Furthermore, Korea was considered by many pharmaceutical companies as an emerging market in 2010; this stopped in 2011. Despite an ageing population, the market is still not growing. Korea may be ranked 14th worldwide today, but it was higher a couple of years ago.

What is your vision for the next five years?

The plan is that ECCK continues to grow, as membership is linked to political influence. We will strengthen our cooperation with other foreign chambers around the world, allowing us to comment on issues in a coordinated way. The aim is to not only approach the Korean government for providing our input, but also for the government to approach us for providing comments and suggestions. We would like to become more professional, reliable and speedy, as well as extend our service portfolio. Our focus will always be on facilitating business, strongly working with Brussels and the EU delegation here.

For healthcare, our goal for the next few years is to add more members in the industry. For pharmaceuticals, ECCK would like to be a stronger communication channel between the Korean and EU governments and our industry members. We would like to be a valued and efficient communicator to improve our business environment in Korea.

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