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Professor Dukgeun Ahn of Seoul National University, trade policy advisor to the Ministry of Health offers his insights into the current policies towards the healthcare industry in Korea, and the potential implications for the US-Korea FTA renegotiations.

As one of the national experts in trade policy, can you introduce us to your research interests?

I have a PhD in Economics from the University of Michigan, a law degree from Michigan Law school. I am a member of the US bar and formerly worked in the World Trade Organization Appellate Body. After returning to Korea, I entered academia and began teaching WTO trade policy and trade negotiations. I also have experience teaching in Switzerland at the World Trade Institute, as well as at the University of Barcelona and in Singapore and Hong Kong.

My research focuses on trading disputes and trade negotiations. Trade disputes cover many different areas. In Korea, I am working as a trade policy advisor to the Minister of Trade, Industry and Energy, the Minister of Health and Welfare, and the Minister of Foreign Affairs. I have been advising the Ministry of Health and Welfare (MOHW) for the past seven years.

How important is the health industry within South Korea’s long-term economic plans?

Focusing on health-related issues, as in other countries, the ageing population is one of the most serious problems. The rate in Korea is actually even more serious than Japan or any other country. In that regard, the health industry has become very important. During the 1980s and 1990s, the government emphasized heavy industries such as the chemical industry and the steel industry. However, the current focus of the government has shifted into the bio-industry, the medical industry, and the medical devices industry.

One of the interesting dilemmas for the government is that the MOHW also oversees the public pension systems. The public pension programme has a huge amount of money which has created a lot of stock market investment issues. Therefore, the scope of the work for the Ministry is expanded beyond healthcare policy, as the financial issues associated with the pensions are huge. This draws attention away from concentrating on healthcare innovation.

One of the problems historically in the pharmaceutical industry was that the generic drug prices were set too high compared to the original product. That is why we observed too many generics producers. Since production costs were low and final pharmaceutical prices were high, the market created a grey area for corruptive practices to keep these systems maintained. Over the last decade, the Korean government has actively moved to regulate the relevant market, and companies have since abandoned those practices and have moved to launch new products which get higher premiums. We are aware that the generics industry has no future and companies must now spend on R&D to show outcomes from their innovations. We believe that our health industry will become much larger, showing remarkable growth every year in spite of any economic downturn. We see this as the key industry for our future.

There are complaints that the current pricing system for pharmaceuticals severely disadvantages multinational corporations and discourages investment. What is your assessment?

In Korea, our health system is under a mandatory insurance programme. The purpose of the Korean pharmaceutical pricing policies is to incentivize the development of innovative products. However, they are also trying to increase the capacity for development amongst local Korean companies. If they have to pay much higher prices for imported pharmaceutical products, there will

be a huge burden for the health insurance system. The government is trying to find a balance.

Pricing of pharmaceuticals is one of the big challenges for the renegotiation of the US-Korea FTA. The Korean-US FTA is the only one in the world to include a separate chapter on pharmaceutical products and medical devices, Chapter 5. It is very important to nurture the Korean pharmaceutical industry, but there is a long way to go in its development.

The Korean government's aim was to nurture joint R&D between US and Korean firms, believing that to be a nondiscriminatory treatment. Under their plans, a US company would partner with a local company and develop the product, receiving a premium rate. However, the US government strongly opposed this proposal. The US government is pushing very strongly to increase the premiums for their products. The Korean government is well aware of the impact were they to acquiesce and abandon the current system. If it agreed to do this, it would have to be nondiscriminatory, and would also impact European and other international importers too. We are awaiting the official announcements of the agreements due at the end of November.

The Korea-EU FTA has resulted in a trade deficit for Korea, evoking criticism for the agreement. Should this be considered a concern?

As an economist, using the trade deficit as the index of whether the current trading relationship is working is absurd. This is a problem for the current international system, and President Trump is the prime example. Academics and outside advisors always try to persuade our government not to base decisions around this index. Korea may be one of the nations where this is well understood: when we grew remarkably between the 1970s and the 1990s, we almost always ran trade deficits. The only period when we ran a very small trade surplus was 1986-1988, following a sudden and pronounced depreciation of our currency.

On the other hand, companies may raise a complaint about trade deficits, since they will encounter negative balances in their accounting books. Nonetheless, from a macroeconomic perspective, a trade deficit is nothing to fear. We import these products because we have a need for them, be it for consumption or as an intermediate product in production.

How is South Korea trying to balance liberalizing trade with incubating its up and coming biotech industry?

In Korea, we have a huge debate over whether to agree to the FTA with Japan. We understand that when we open the door to large and developed economies like the US and the EU, domestic competition may not survive. In many areas, particularly in health or medical devices, these industries are in their infancy. Allowing competitors in domestic markets too early will destroy them. Thus, in the short run, such policies may reduce competition in the market, but in the long run, we will gain by creating a more competitive industry and increase our domestic innovation. This is what we have learnt over the past five decades.

Korea has one of the highest levels of corruption in the OECD. How does this impact investment?

We were very frustrated having discovered that our previous president was enmired in a corruption scandal. However, the situation has been improving over the years. Large companies that engage in the European and US markets tend to be more transparent. In particular, the health industry is one of the most transparent as the top-level scientific outcomes get transferred to commercial outcomes. I believe the Korean government will continue to enhance a fair and transparent environment for medical industries. It will surely help promote more investment, foreign as well as domestic, essential for developing better medical industries in Korea.

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