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Pharmerging Countries in the Middle East: a Spotlight on Jordan

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Abstract

The pharmaceutical industry is considered the most growing business. It has a huge profit margin and high investment in Research and Development to create new products to treat new diseases in addition to high investment in the marketing projects and sales power.

Objectives – there are three main objectives of this paper: first purpose is to examine the globalisation in the pharmaceutical business, second purpose is to examine the opportunities in the Middle East pharmaceutical markets as a Pharmerging market and the third purpose is to examine the Jordanian pharmaceutical market as a future emerging market from a strategic point of view. The authors analyse the advantage / disadvantage ratio to penetrate the pharmaceutical Jordanian market. The authors suggest that penetrating Jordanian pharmaceutical market could be the gate to the whole Middle East region.

Purpose: is to provide information for the pharmaceutical companies the latest data about the Pharmerging countries in the Middle East and long-term strategic decision in the region.

Originality / Value – the article addresses the strategic importance for the pharmaceutical companies to consider when penetrating the MENA countries (Middle East and North Africa)

Paper type – Presentation in the 3rd *annual Pharma Forecasting Excellence 2010* in Boston, MA – USA

Pharmaceutical industry

The initial idea about the pharmaceutical industry started in late 1850s, and before that the disease was known as one of mankind's obsessions. It was known a black evil or an alien which enter the body and cause high fever, weakness, fatigue and might reach to death. People used to say that it is because of the past sins which affect the patients' social image in the community. Patients used to go to different places looking for treatment; they used to go churches, herbs experts and doctors.

The emerging of pharmaceutical industry was breakthrough and the drug makers created this idea “*You Have a Problem, We Have a Pill*”. This idea makes the pharmaceutical business one of the world's largest industries and in addition to this it became the most profitable business. Since that time; the medicines industry is in a continuous development to serve humanity and prevent diseases (Lynn, 1992).

The pharmaceutical business differs from any other business particularly when compared to the Fast Moving Consumer Goods (FMCG). Some of these differences are in their long patent life of the medicines, sophisticated research and development to produce new molecules, high development costs, highly profitable, highly controlled market and its promotion depends on scientific studies through which doctors and pharmacists contribute in the consumption decision of the drugs (Haloub, 2007).

Pharmaceutical products used to be divided into two main categories: Over the Counter (OTC) and Prescribed, but the new classification of the pharmaceutical products is: Over the Counter (OTC), Prescribed and Hybrid (could be both; OTC and/or prescribed). The Prescribed pharmaceuticals are divided into different segments (Dermatology, cardiology, ...etc) (Haloub, 2007)

Each pharmaceutical company has its own image or identity, and it is basically depending on the types of products manufactured, which will give the pharmaceutical company the competitive advantage to expand in the same segment and at the same time, creating more loyal customers in the market. As shown in the Table (1) the summery of performance data from the world's major pharmaceutical manufacturers.

Company	Drug sales (US\$ billions)	Operating Profit Margin (% revenue)	Net profit or loss (% revenue)	R&D % revenue	Marketing and administration (%revenue)*	Approximate share price movement (%) [▼]	Market capitalisation, November, 2001 (\$US billion)
GlaxoSmithKline	23.38	30.70	28.00	N/A	N/A	890	166.40
Pfizer	22.57	39.30	16.50	17.10*	39.20	5,800	274.30
Merck	20.22	57.20	29.20	11.60	15.90	7,200	149.20
Bristol Myers Squibb	15.88	N/A	29.70	9.10*	22.60	4,700	108.00
AstraZeneca	15.70	25.60	16.20	N/A	N/A	450 (Since January, 1994)	81.50
Aventis	14.90	19.40	-0.91	16.80	N/A	230 (Since January, 1994)	55.00
Pharmacia	12.65	8.70	5.70	17.10	38.60	970	58.00
Johnson and Johnson	11.95	34.90	40.20	15.90	38.20	17,000	185.80
American home Products	10.80	27.10	-21.90	15.00	37.20	1,000	78.40
Hoffmann-La Roche	10.47	33.20	48.90	18.10	N/A	N/A	N/A
Novartis	1.42	N/A	40.90	18.30	N/A	100 (Since May, 2000)	95.40
Eli Lilly	10.19	N/A	30.00	17.80	27.60	2,000	92.70

Data refer to 2000 unless otherwise specified.* 1999 data [▼] Between January 1990 to November 2001

Source: <http://www.finance.yahoo.com>; <http://www.pjbpubs.co.uk>

Table 1: Summary of performance data from the world's major pharmaceutical manufacturers

R&D that is conducted by pharmaceutical firms is considered as an investment activity that should be capitalised in its market value, by which the R&D output is considered as intangible assets and can be labeled as "*Knowledge Stock*". If these assets have a positive contribution to the firms' future net cash flow, then the amount of knowledge stock will indicate the market value (Hall, Jaffe and Trajtenberg, 2001).

The cost of R&D in pharmaceuticals is very high, and according to the office of technology assessment; the pharmaceutical industries in USA claim to invest of US\$30.5 billion in Research and development during the year 2000 (Sheehan, 2001) and pharmaceutical company would be considered successful if it launches one molecule per every 10,000 developed molecules during drug research (Lynn, 1992).

Globalisation

Globalisation is relatively a new term in business (as it was internationalisation) when compared to the other business and financial studies. Globalisation (Ramirez, 2006) is a distinct phase of the general process of internationalisation.

Pharmaceutical industry was the first industry that recognised the importance of global business and pharmaceutical industries were asked to register their medicines and sell overseas to fulfill the patients' needs to cure diseases. At the same time, the governments simplify the process of shipping. Unintentionally; the pharmaceutical industries became globally operating. (Lynn, 1992)

The globalisation of research in this definition is characterised by the growth of Foreign Direct Investment (FDI) (allowing MNCs to distribute their research activities world-wide) and an increase in the international division of labour through the emergence of worldwide intra- and inter-corporate research networks. The pharmaceutical companies tend to focus on globalisation of research. These facilities would then operate within inter-dependent intra-firm R&D networks.

Pharmerging Markets in the Middle East

The definition of the territory of the Middle East varies between experts' opinions; some consider the Middle East includes: all Arab countries, Iran, and Turkey whereas some experts consider the Middle East countries are Gulf, Levant, Egypt, Iran, and Turkey. The Middle East definition is a region that spans southwestern Asia, southeastern Europe, and northeastern Africa. It has no clear boundaries.

Before we go through this study, I will define the terms that I will use; *the Arab world* countries are those that speak Arabic as a native and official language, *the Middle East and North African (MENA)* countries are those that include Arab countries in addition to Sudan, Iran and Turkey; where the *Middle East countries* are those which include Arab countries in the region plus Egypt, Turkey and Iran, as shown in Figure (1).

In the Middle East region, there is a new challenge due to the different environmental changes in the roles and regulations and the economic and political map in the region (like in Iraq, Syria, Palestine, and Iran). The Middle East pharmaceutical market is considered a very attractive one for different types of industries especially for pharmaceutical companies. Too many changes in a short period of time would create huge business opportunities. There are about 16 countries in Middle East, 12 out of which are Arab countries who share language and religion. The source of income is mineral production (oil) and agriculture and the modern industrial manufacturing is still in its infancy. The current population of the Middle East exceeds 350 million and is expected to grow by more than 40% over the next 20 years



The local pharmaceutical manufacturers in the Middle East produce mainly generic pharmaceuticals and/or joint ventures between foreign and local companies. Today, Middle East countries had to fulfill the obligations of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement by January 2005.

Generic drugs in the Middle East have experienced higher performance due to the large numbers of patent expirations, but in the near future this trend will decline as well as the number of expiring patents decreases which will give the golden opportunity for the multinational companies to enter the market and this will reflect the annual growth in the region. Signing the TRIPS by most of Arab countries (except Syria and Saudi Arabia) will open the way for the multinational companies to lead the market growth in pharmaceutical business. Taking into considerations that the currencies in most countries in the region are stable and pegged to the US dollar

Egypt, Jordan, Lebanon, UAE and Saudi Arabia are all Arab countries but each has its own environmental and political characteristics and nature of business. There are more than 200 pharmaceutical manufacturers in the Arab World that include private

or state-owned companies or joint ventures between foreign and local partners, and its sales represent about 1.5% of the global pharmaceutical business and the MENA region accounts for 2% of the global pharmaceutical sales. 90% of raw materials used by Arab pharmaceutical companies are imported from India, China and Brazil. The majority of Arab manufacturers produce generic or under-license products, which indicate that Arab manufactures depends mainly on R&D of foreign companies. While multinational pharmaceutical companies invest about 12 – 20% of their annual sales revenue on R&D; Arab pharmaceutical industries invest less than 0.2% of sales revenues on research and developing new molecules and these expenditures are mostly directed towards new formulations and creating innovative drug-delivery systems of existing, off-patent molecules. Due to this, Arab pharmaceutical industries are obligated to search for new markets to penetrate in order to continue the annual growth

Egypt; it is biggest population in MENA countries; population of \approx 95 million. Egyptian local manufacturers produce about 93% of its pharmaceutical market. Egypt is a price sensitive market; its economy depends mainly on tourism, joint ventures and/or providing local Egyptian pharmaceutical companies with new products to be promoted under license in order to decrease the public cost to the end consumer while maintaining acceptable profit margins. Egypt joined the WTO in 1995 and continued a decade-long reform process of upgrading its intellectual property laws under the U.S/Egypt free trade agreement

Jordan; the macro-economic fundamentals are sound and many indicators point to continuing growth into 2009. The five year average annual GDP growth is 6%. The economy is still growing strongly. On the purchasing power parity basis, Jordan's GDP growth performance has shown the ability to deliver tangible growth to its inhabitants.

Jordan is considered the number one largest exporter of pharmaceuticals among Arab countries and this industry represents Jordan's second leading sector registering sales of \$280 million in 2003. The reason behind focusing on exporting is that the Jordanian pharmaceutical market size is small. Jordanian pharmaceutical industries spend less than 0.1% of its sales revenues on R&D. Jordanian pharmaceutical companies focus mainly on gaining the FDA approval for their products to penetrate

the US market and use the certificate for promoting items in other countries to indicate high quality products.

Jordan is famous in all aspect of medical care; patients come from Libya, Yemen, and Sudan and from some Gulf countries to get the medical care. Jordan has a stable political environment in addition its unique location, where it is located beside Iraq, Syria, Palestine and Israel, and these countries are very promising. Jordan is considered the centre point between these countries allowing the business to expand smoothly in the region. The registering time of a new molecule in Jordan is about 180 days. The currency is stable and is easily transferable. The Jordanian Dinar is stable and pegged to the US dollar. During the economic expansion, Jordan has increased its foreign exchange reserves substantially to 6.8 billion USD in year 2007 from 2.8 Billion USD in year 2000.

Lebanon: has a small market size and because there are a few local Lebanese companies; the country depends mostly on pharmaceutical products imports. The political environment in this small country that suffered from wars and unstable conditions affected the market growth.

Saudi Arabia is considered the largest market size in Arab countries (Except Egypt). Saudi Arabia is one of the most attractive targets for healthcare professionals worldwide, where it has shown fast developments in technology in the past few years. Lifestyle diseases like obesity, diabetes and hypertension, are among the highest in the world; this will elevate the country's healthcare spending in future. The healthcare sector in Saudi Arabia seems very promising and is expected to outpace the growth rate of other countries in the Middle East region in coming times. Saudi Arabia imports a large amount of semi-finished items to be re-labelled and repackaged. In 2006, imports were valued at US\$1.9 billion, a rise of 12.5% over 2005. Germany and Switzerland were the leading suppliers. In contrast, exports amounted to just US\$102.1 million. Doctors are from different nationalities and medical schools (American or British schools of medicine) which would affect the prescription behaviour. The domestic production in Saudi Arabia is very low, the majority of the market is provided by imports.

UAE is characterised by the highest price medicines in the region the majority of doctors are from the Far east mainly from Pakistan and India, hospitals are very advanced and healthcare providers are unique. There is a marked increase of pharmaceutical business in the private sector of UAE which is due to the fact that the country decided not to provide any more free medical assistance to foreigners which of course increased the healthcare insurance business in the UAE, as medical premiums have risen on an average 25-30% owing to rising expensive medical claims. It is also important to mention that 80% of the UAE population are foreigner. Saudi Arabia and UAE have a significant private market.

Libya used to purchase medicines without registration (i.e. as tender) but things will be changed after the Lockerbie settlement. Libya is an oil producing country and depends on importing drugs (generic and original) from Egypt, Jordan and some other countries.

Penetration of MENA region

There is a huge opportunity for pharmaceutical companies to penetrate the region, especially after signing the WTO where the multinational companies can easily expand their business by launching new and innovative molecules.

The governments are strongly moving towards liberalising national economies by liberalisation of trade, investment procedures, elimination of trade barriers and encouragement of foreign investment by implementing of stronger trademark and copyright laws and reduce the import tariffs. The population in Middle East grew by 2.7% in 2008 and is expected to grow by more than 40% over the next 20 years. The top therapeutic categories vary from country to country; for example anti-infective is the number one category in Jordan and Saudi Arabia, it is ranked number 4 in Turkey. There is a noticeable increase in lifestyle diseases like obesity, diabetes and hypertension, and chronic diseases like heart disease and cancer incidence are among the highest in the world.

Local pharmaceutical industries invest less than 0.2% of sales revenues on R&D. These expenditures are directed towards new formulations of existing, off-patent molecules. Due to this, these manufacturers are obligated to search for new markets to

penetrate in order to continue the annual growth. The countries' governments are aiming to improve standard of living by giving better awareness of health issues and simplify the health insurers are entering the market. For the healthcare insurance, there are new regulations in the region obligate the employers to provide healthcare insurance to all employees with their families and this would expand the pharmaceutical and healthcare market. In some countries, number of registering generics is limited, prices are controlled by health authorities and any changes in the prices should be managed by the MOH. Countries like Egypt, Turkey and Iran representing more than 60% of the population in the ME. Moreover, the Egyptian local manufacturers produce about 93% of its pharmaceutical market. In Saudi Arabia, the imports represent 80-85% of the Saudi pharmaceutical market

Some countries are very promising, like Syria and Iraq; where the unstable political conditions and a little data about the market; make it difficult to evaluate the risks of penetrating these markets. Yemen is ranked the sixth in terms of population, and it has climbed from being one of the world's poorest countries to the middle-income bracket due to oil and unification of North and South Yemen. 45% of the pharmaceutical market is considered parallel market (grey market) and import illegally from the neighbor countries especially from Egypt. It is also important to mention that Egypt has a higher generic penetration and BMI estimates that generic drugs account for less than 10% of the GCC pharmaceutical market. Figure (2) represents an overview of the ME markets, in relation to the governmental spending on healthcare, market growth and population in Turkey, Jordan, Saudi Arabia, Egypt, and Lebanon.

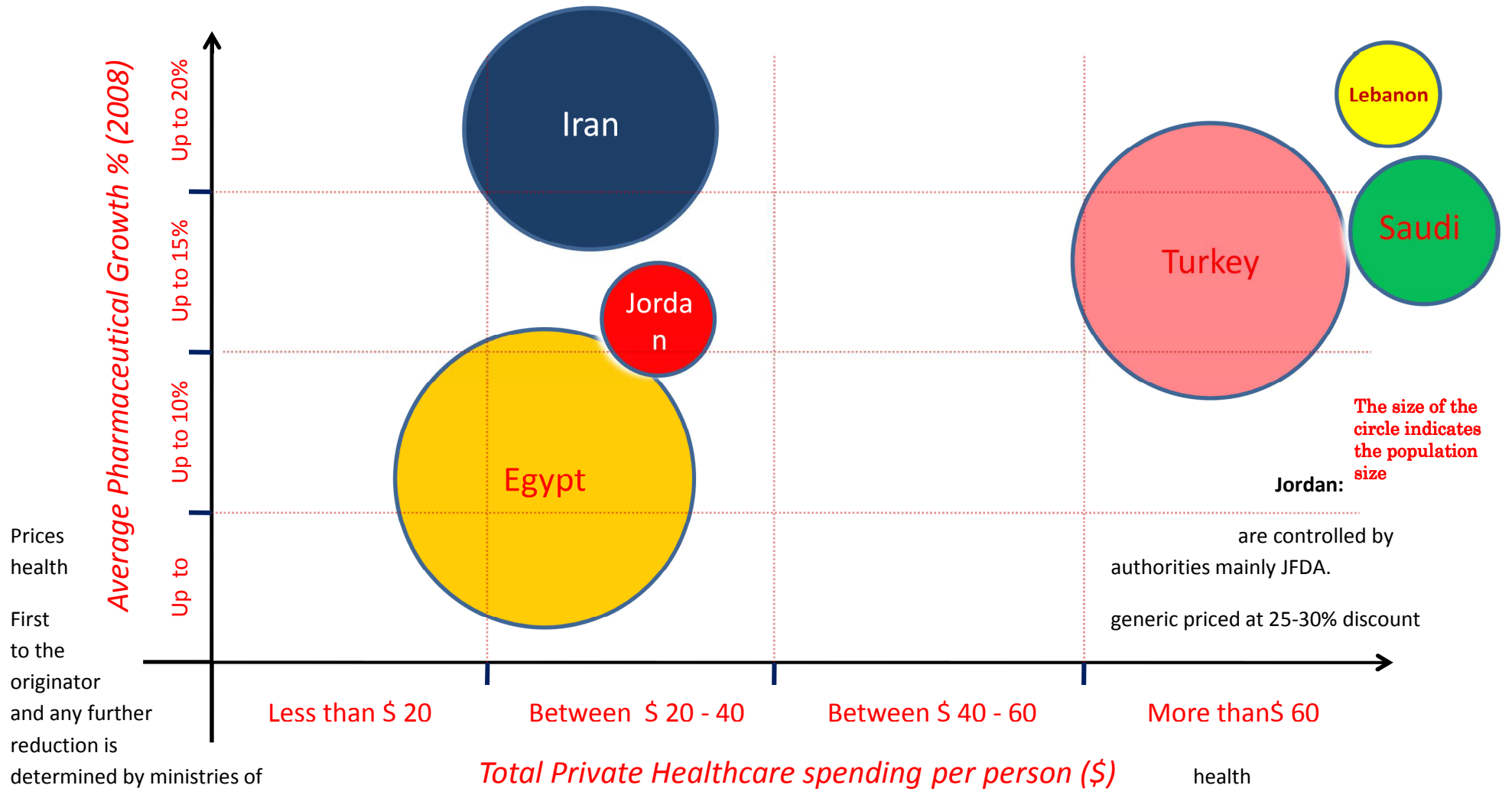


Figure (2): relationship between average pharmaceutical growth, population and health care spending in Turkey, Jordan, Saudi Arabia, Egypt, and Lebanon

Pricing is determinate according to the added value of product to health services, price in neighboring countries, price in country of origin and price of competitors in the market.

Conclusion

Despite the small market size of Jordanian Pharmaceutical market, but Jordan is considered as a strategic place for investment in MENA countries. The stability of Jordanian market makes it opportunity to exist in the MENA countries. This conference paper is based on the statistics from IMS and internationally recognised companies in pharmaceutical markets. The globalisation will motivate investor to create opportunities in MENA, and accordingly, the future investment for MNC in Jordan is expected to increase within high political turbulence conditions in some countries surrounding Jordan.

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