

The Healthcare Industry in the MENA Region and Its Policy Implications for Korea-MENA Healthcare Cooperation

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1. Characteristics and Policy Trend of the Healthcare Industry in the MENA Region

The healthcare industry in the Middle East and North Africa (MENA) region is growing rapidly, owing to the increase in population and life expectancy, as well as healthcare expansion policies. The compound annual growth rate of population of 19 MENA countries during the period of 2011-2020 is expected to be 1.6%, which

is higher than that of the entire world in the same period (1.1%).¹ In addition, owing to high birth rates and increasing life expectancy, demand for healthcare service of various age groups, from infants and adults over 65, is also increasing.

¹ The 19 MENA countries, the target of this study, are Bahrain, Saudi Arabia, Oman, Yemen, Qatar, Kuwait, UAE (the above are in the Arabian Peninsula), Lebanon, Syria, Jordan, Iraq, Iran, Israel, Turkey (the above are in the Middle East other than the Arabian Peninsula), Egypt, Libya, Tunisia, Morocco, and Algeria (the above are in Africa).

Meanwhile, because the main diseases in the MENA region are metabolic in nature, such as obesity, hypertension, hyperlipidemia, and diabetes, demand for medical treatment for these cases is high. The amount of metabolic activities in this region is small because outdoor activities are highly constrained by hot and dry desert weather in many countries despite excessive intake of sugar and high-calorie diet.²

However, medical supplies, medical staff, hospital beds, medical institutions, and healthcare services which each country can supply for itself fall well below demand. As public healthcare represents a large segment in most MENA countries, the size of national finance can affect the healthcare industry. Financially affluent oil exporters are pursuing the expansion of medical institutions by placing orders for large-scale healthcare projects and reinforcement of medical staff by attracting overseas doctors and nurses. On the contrary, in oil importers, due to fiscal deficiency, overall healthcare system is lagging with insufficient medical institutions and medical staff and because of lack of medical social security systems.

Each MENA country is implementing healthcare expansion policies in order to solve the imbalance between supply and demand, as well as to stabilize public sentiment that has been formed since the regional political upheaval of 2011. First, the six Gulf Cooperation Council (GCC) countries are implementing large-scale healthcare projects based on stable economic, political, and social environment. As of November 2013, 114 projects (\$36.7 bn) out of the 145 healthcare projects (\$39.2 bn), which

are under progress in the MENA region, were ordered by GCC countries. In terms of amount, the 114 cases account for 94% of the total.³ In particular, Saudi Arabia and UAE are actively implementing large-scale projects, such as King Abdullah Medical City (\$5.3 bn) and Sheikh Khalifa Medical City (\$4.0 bn).

As medical tourism is becoming more active globally, some MENA countries are also beginning to promote medical tourism. In particular, regional medical tourism is being promoted, thanks to the drove of patients coming in from other countries where healthcare was heavily affected because of political instability since 2011. In the MENA region, Jordan and Turkey have become leading medical tourism destinations by attracting patients from the MENA region, Europe, and Central Asia. It is forecasted that about \$2 billion income from medical tourism will be created in the MENA region because of the visit of 753,500 foreign patients by 2016.⁴

Lastly, the countries that are going through political changes are implementing reconstruction projects in their respective healthcare sectors. In Egypt (regime change since 2011), Libya (civil war), and in Iraq (continued acts of terrorism between religious groups), the most urgent healthcare issue involves the provision of stable healthcare service through restoration of medical institutions, and replenishment of medical supplies and medical staff. Therefore, governments of these countries have set healthcare as top priorities in government administration, and are trying to reinforce it by increasing related budgets. In particular, Iraq and Libya, which are oil exporters, are imple-

² Lee, Kwon Hyung; Kwon, Kisu; Kim, Taeyoon; Moon, Ikjoon; Lee, Jaeho; and Park, Jaeun (2013), A Study on Measures for Activating Creative Economy Through New Industrial Cooperation with Emerging Economic Regions. National Research Council for Economics, Humanities & Social Sciences, p. 38 (in Korean).

³ Zawya. Projects Monitor DB (Accessed on Nov. 7, 2013).

⁴ Research and Market, "Middle East Medical Tourism Industry Outlook to 2016 - Advanced Medical Infrastructure Paving the Way for Future Growth," (Accessed on Aug. 27, 2013).

menting more active reconstruction projects through implementation of large-scale healthcare projects.

In consideration of the above characteristics and policy trends of the MENA region, it is expected that the possibility of exporting Korean medical institutions, equipment, and supplies to the region will be high if we take advantage of the new construction and modernization of hospitals in the GCC countries, and economic rehabilitation projects of Iraq, Libya, and other countries in the region.

2. Analysis on Medical Expenditure and Selection of Promising Countries for Entry by Korea

Through a quantitative analysis on medical expenditure, we have reviewed the characteristics of the healthcare industry in the MENA region. By utilizing a two-track approach that analyzes the gap between the tendential medical expenditure and the potential medical expenditure, we make proposals for ‘base countries’ for entry by Korea. The tendential medical expenditure forecasts increase of medical expenditure of each country, and the potential medical expenditure gap is the difference between the real medical expenditure and the potential medical expenditure, which enables measuring of the growth potential of the healthcare market of each country. Based on the result of the estimation, it is deemed necessary to exclude countries where medical expenditure has reached its saturation status in terms of national capacity; to choose countries that have additional room for growth as the bases with which Korea can enter the region.

According to the two-track approach, if it is expected that the tendential growth of medical

expenditure of a country will be larger than its average medical expenditure growth, we assigned it as a high-priority country for entry. If it is expected that the tendential growth of medical expenditure of a country will be smaller or decrease relative to its average medical expenditure growth, we designated it as a low-priority country. If it is expected that a country's potential medical expenditure will be equal to the real medical expenditure without a gap, we selected it as a high-priority country. If a country is expected to have a positive gap regarding potential medical expenditure, we assigned the country as a second high-priority country. On the contrary, if a country is expected to have a negative gap in terms of potential medical expenditure, we excluded the country from the list of countries to be entered.

The highest priority base countries for entry by Korea include Morocco, UAE, Iraq, Egypt, Tunisia, and Turkey. The highest priority base countries are those in which growth of medical expenditure is expected and little gap exists between the potential and real medical expenditures. Having no gap means that the real expenditure will increase up to the potential and that the medical market will grow steadily even though severe competition is expected in the country concerned.

Algeria is categorized as a second-priority candidate of promising countries for entry by Korea. The reason is that its medical expenditure is forecasted to grow and its potential medical expenditure is larger than its real medical expenditure. Even though it is still slightly politically unstable, we need to preoccupy it because it has a very high possibility of development.

Libya, Syria, Oman, Qatar, and Israel were selected as third-priority countries. Libya is currently showing a high growth of medical expenditure related to its economic rehabilita-

tion process, and its potential medical expenditure is high, which justifies the necessity of preoccupation. If its rehabilitation proceeds smoothly in the future, it can become the most promising country for entry by Korean firms.

If decisions are made according to objective indicators based on the outcome of this study, probability of failure can be reduced. Nevertheless, as the MENA region has varying characteristics because of individual cultural characteristics of each country, it will be risky to depend solely on the results of this quantitative study. Therefore, we need to consider qualitative analysis concurrently with the quantitative outcome proposed in this paper. To complement the weak point of quantitative analysis, we carried out analysis on the conditions and cases of major countries of this region in the following chapter.

3. Analysis on the Conditions and Cases of Entering Major Countries in the MENA Region

Through the analysis on medical expenditure, we reviewed the status of healthcare policies and markets of UAE, Iraq, and Egypt as promising MENA countries to be entered by Korea.

First, UAE is a strategic place for Korea's advance into the healthcare industry in the MENA region. Its cooperation activities with Korea in terms of healthcare are the most active in the region and it is the first country where Korean hospitals were established and set up. Among the Korean hospitals, Wooridul Hospital is considered successful, specializing in spinal treatment and medication. Additional and similar success cases should follow to help more Korean hospitals make inroads into other GCC countries and the North African region. In addition, as seen in successful cases of Wooridul

Hospital and the Diabetes Center of London University, it needs to enter the region, not with general hospitals but with specialized ones, where there is more demand in the region. Lastly, it is expected to be much more desirable for Korean hospitals not to enter the region on their own but to enter into joint investments with excellent local partners that have a good operation and advertisement capability in UAE.

In Iraq, where there is steady demand for hospital construction, we need to pay attention to turnkey-based hospital projects. In addition, according to KOTRA's data, as the profitability of hospital construction is high, it is deemed necessary for Korean construction firms and hospitals to enter the region.⁵ Based on successful hospital constructions in Iraq by German Medical Services and Turkish Universal Acarsan, Korea may establish effective strategies in entering the Iraqi market. In particular, Korean firms need to enter turnkey-based hospital construction projects ordered by central and local governments of Iraq so that they can move on to participate in hospital management, implementation of healthcare systems, and con-signed operation even after completion of construction. Even though Iraq permits 100% foreign ownership, it will be an effective strategy to participate in projects ordered by the Iraqi Ministry of Health jointly with Iraqi partners or Turkish firms to increase the order acquisition ratio.

In Egypt, considering its population size, industrial basis, and the growth potential of the pharmaceutical industry, we need to enter it from a long-term viewpoint. The growth potential of the pharmaceutical industry of Egypt is strongly based on its rich labor force and geography, which is connected to the Middle East,

⁵ Hwang, Utae (Dec. 14, 2012), "Iraq, Hospital Construction Turn-key Project Placement Increases", Global Window (in Korean).

Europe, and Africa. In a survey of Korean pharmaceutical firms, Egypt was selected as a promising country for exporting medical supplies.⁶ Korea United Pharmaceutical Co., Ltd. is constructing a pharmaceutical facility in Cairo and Daewoong Pharmaceutical Co., Ltd. signed a contract to export medicines for diabetic foot ulcer.⁷ Despite the positive outlook on the Egyptian pharmaceutical industry, we need to approach it from the long-term viewpoint because it is hard to achieve market penetration in the short term due to the political instability in Egypt since the downfall of the Mubarak regime.

4. Measures for Activating Linkage of Korea-MENA Healthcare Industry

Based on the relatively excellent medical technology, IT-based hospital management operation system, and price competitiveness, Korea has been increasing cooperation with the MENA region in healthcare, focusing on attracting patients from the MENA region and export of digital hospital projects. Until now, healthcare cooperation between Korea and the MENA region has focused on Korea's supply capacity and on individual activities of hospitals and firms rather than on interindustry linkage. However, as healthcare shows different characteristics in terms of markets and institutions in each country and has strong attributes as a public good, the same method of marketing and cooperation for export of general manufactured goods is likely to fail in the end. However,

it has been revealed that continuous development of healthcare cooperation between Korea and the MENA region is difficult to achieve because of lack of local manpower with medical specialization and lack of industry linkage policies for mutual growth in the healthcare industry.

Accordingly, this study proposes "to establish a creative economy through interindustry linkage and convergence among various business categories." This study intends to inclusively refer to interindustry linkage and convergence as medical service, medical equipment, and medical supplies in the healthcare industry; linkage of the IT industry and overseas construction business, which are involved in the progress and overseas penetration of the healthcare industry; linkage between domestic and foreign firms; and expansion of financial procurement capability. The expected effects include enhancement of healthcare industry to fit itself to local characteristics rather than simple trade expansion, encouragement of overseas penetration of small- and medium-sized enterprises, creation of jobs for professionals with specialization, etc.

For the realization of this policy vision, we propose three policy objectives: interindustry linkage/convergence, development of capabilities of specialists/professionals, and localization. First, we need to establish interindustry linkage based on the value chain of medical service, medical equipment, medical supplies, consultancy, construction, finance, IT, etc. Interindustry linkage can be viewed not only on the industry level, but also on the corporate level. In other words, as Korean hospitals and firms still have weak overseas brand competitiveness, we have to pursue global partnerships to achieve cooperation with foreign firms. Furthermore, financial linkages should be bolstered to strengthen financing capability for local hospital construction projects.

⁶ Korea Food and Drug Administration (Jul. 9, 2012), "KFDA, International Workshop Held Inviting Biomedical Products Regulation Authorities", KFDA Press Release (in Korean).

⁷ "Daewoong Pharmaceutical Co., Ltd.'s EGF, Signed Egypt Export Contract" (Oct. 24, 2012), Comedy.com News (in Korean).

In addition, to increase the possibility of successful cooperation, we need to simultaneously implement development of capability of specialists/professionals and policy tasks for localization. There are various specialists/professionals involved in the healthcare industry, such as doctors, nurses, clinical engineers, blood collection specialists, medical equipment maintenance personnel, hospital operation programmers, and hospital administrative personnel. Korea should establish programs to train healthcare professionals reflecting local demand in the labor force, such as specialized colleges and education/training centers. Along with such endeavors, we need to understand different medical markets, institutions, or policies through exchanges between MENA and Korean specialists/professionals.

Furthermore, it is necessary to build new mid-to small-size specialized hospitals, or to reach agreement on consigned management of existing hospitals in order to treat chronic diseases attributed to cultural and environmental factors. For localization, based on the understanding of local cultures, we need to establish religious and cultural infrastructure customized for patients of the MENA region, and to pay close attention to diet, interpretation, praying facilities, etc. Even though localization will require a longer-term perspective, we need to consider establishing local manufacturing bases of medical products that are widely used locally. Such measures can form the basis of replacing the shape of government-led cooperation and of expanding private sector cooperation. 