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PROSPECTUS

Healthcare and Medical Sector: Overview and Commercial Prospects in Saudi Arabia and the United States

Based on data from sources like Regional Economic Models Inc. and the Saudi Arabian General Authority for Statistics, we have incorporated novel analyses into a broader sector-level narrative. We are pleased to present a report highlighting trends and forecasts in the Saudi Arabian and U.S. health and medical sectors.

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Table of Contents

4	Executive Summary
	SAUDI ARABIAN MARKET
5	Key Healthcare Sector Trends
6	Saudi Arabia – Increased Demand and Privatization of Healthcare
7	Economic Reform
8	Increasing Reliance on Foreign Investment
9	Growing Value of Healthcare Industry
11	Healthcare Sector Structure and Regulatory Environment
13	Special Projects and Joint Ventures
14	Facilities
16	Private Sector Participation Initiatives
18	Lifestyle Diseases
19	Spending Evaluation
20	Pharmaceutical and Medical Device Market
22	Key International Presence in Saudi Arabia
25	Labor Force
30	Health IT and E-Health
32	Health Insurance Market
33	Discussion: Market Outlook, Opportunities, and Challenges
	U.S. MARKET
34	U.S. – Healthcare Market Trends and Outlook
39	Data Sources
39	U.S.-Saudi Arabian Business Council Healthcare Companies

Executive Summary

The healthcare sector in Saudi Arabia is the largest in the Middle East, and both healthcare services and training have become top priorities for the Saudi Arabian Government, with 13.5 percent of the Government's spending devoted to the sector. With increasing demand and increased yearly health care spending, the sector has emerged as an area of opportunity for economic growth in the Kingdom. We project that the contribution of health services to Saudi Arabia's GDP will increase by over 13 percent through 2025, with the Eastern Province, Al-Jouf, Riyadh, and Makkah experiencing the greatest near-term sector growth.

As our forecasts indicate, demand in the sector is growing at a compound annual growth rate (CAGR) of 2.3 percent while the CAGR of supply is 1.3 percent. As the gap in supply and demand for healthcare services continues to grow through 2030, so will opportunities for private health care providers.

Saudi Arabia is evaluating the current structure of its health care system in the context of issues such as a high prevalence of lifestyle diseases, preventative health initiatives, and innovative models of health care delivery. Obtaining human resources in terms of the trained healthcare professionals needed to meet rising demand will present a challenge. Both private sector and public sector providers have hired international staff, but developing the domestic capacity to meet these needs has become a priority. Labor productivity is expected to see continued growth, suggesting that national reforms have shown enough effectiveness to hire more Saudis in the private sector without diminishing productivity. Multinational corporations in medical products and services provide on-the-job training perspectives in highly skilled areas of work. A rising number of Saudi graduates from medical college programs, and training programs created through joint ventures will help to mitigate challenges in human capital.

Within the healthcare and medical industry, Saudi Arabia's privatization agenda as part of Vision 2030 will create new opportunities for foreign investors and foreign companies looking to gain or expand their presence in the Saudi market. The Saudi Government has underscored the importance of improving healthcare provisions through the modernization and expansion of state and privately run healthcare facilities. The private sector accounts for about 30 percent of the local healthcare market, though reform efforts underway by Saudi Arabia will bolster the private sector's position in the medium to long horizon. The Saudi Government's efforts towards

openness in the healthcare sector over the past couple of years strikes a notable contrast to past years. Among these efforts are transparency of the healthcare budget and spending, along with encouragement of private sector participation in healthcare, demonstrating commitment to attracting foreign investment. Opportunities for private-public coordination are expected to continue in areas such as specialized offerings in public hospitals, construction of new medical centers, long-term care services, e-health, pharmacy, laboratory, radiology, and hospital administration.

About one-third of the population in Saudi Arabia has health insurance. Changes to compulsory health insurance laws have expanded the medical insurance market, valued at \$6.7 billion. The expansion of health insurance coverage may also influence pharmaceutical demand and prices as providers may prescribe generics treatments to minimize costs.

The pharmaceutical market in Saudi Arabia is the largest in the GCC region, valued at over \$8.5 billion, and segmented into prescription and over-the-counter products. While Saudis have traditionally preferred branded products, the market for generic products is expanding, though both branded and generics products are projected grow in the near term. Saudi Arabia also has a strong market for medical devices, particularly driven by an increasing need for diagnosis equipment and extended care.

As part of Vision 2030 and the National Transformation Program 2020, the Saudi Government has set targets to boost local manufacturing of medical products and to develop an integrated pharmaceutical and medical device manufacturing cluster. In 2016, there were 16 licensed pharmaceutical factories planned with over \$400 million in financing, indicating early progress towards these goals. U.S. multinationals such as AbbVie, Cerner, GE Healthcare, Johnson & Johnson, Merck & Co, Pfizer, Welch Allyn, 3M, as well as small and medium enterprises (SMEs) have a growing presence in the Saudi Arabian healthcare sector. Partnerships with Saudi Arabia and U.S. firms such as Johnson & Johnson and AbbVie have focused on localizing production of key therapies needed by Saudis. Multinational manufacturers benefit from partnerships with local Saudi firms who distribute and promote their products.

The Ministry of Health (MoH) has undertaken initiatives aimed to grow the local pharmaceutical industry, privatize hospitals, and remake primary health care

centers. Overall, the Ministry is addressing a need to consolidate services and boost efficiency. Near term transformation progress, however, depends on targeting the easily obtained gains in the healthcare system and the trade off in terms of the country's comfort with the current system with potential long-term individual and economic benefits.

In 2017, the United States healthcare sector has been one of the best performers in terms of investment, with a particularly strong biotechnology subsector. Demand in the U.S. healthcare sector continues to be robust, partially driven by an aging population. In the near term, California, Florida, Illinois, New York, Ohio, Pennsylvania, and Texas are among the top regional marketplaces for both ambulatory and nursing care services. Over the past years, the U.S. healthcare market has seen a trend of consolidation and has become more consumer-driven and value-based. Innovative technologies and business models continue to

emerge, disrupt, and to some extent, limit rising costs.

The U.S.'s premier academic institutions, pharmaceutical manufacturers, and healthcare providers continue to occupy key positions within Saudi Arabia's healthcare sector. As a valuable trading and investment partner, the United States plays a substantial role in the Saudi Government's ongoing sector transformation and privatization plans. Promising commercial prospects exist across various medical services, medical devices, hospital management and joint ventures, training of medical staff, pharmaceutical manufacturing and distribution, information technology and data management. These prospects are in digitization of records and patient billing, provision of health insurance, and local development of bioequivalence centers and clinical research organizations in the Kingdom. Continued bilateral cooperation will be instrumental in long-horizon advancement of the Saudi healthcare sector.

Key Healthcare Sector Trends

- Saudi Arabian Government-initiated economic reforms to the healthcare sector as outlined in Vision 2030 and the National Transformation Program.
- A growing gap in the supply and demand for Saudi Arabian healthcare services through 2030.
- An increased role of the Saudi private sector and emerging opportunities for public-private partnerships.
- Increased foreign investment in the Saudi healthcare sector, especially in areas such as long-term care.
- A larger Saudi Government budget appropriation to healthcare and development services.
- An increased capacity of privately-managed facilities in Saudi Arabia.
- Underutilization of Ministry of Health Primary Health Care centers.
- Pilot projects initiated by the Ministry of Health with focus areas such as primary health.
- Localization of pharmaceuticals manufacturing in Saudi Arabia.
- Expanding markets in Saudi Arabia for both branded and generic products.
- A rise in labor productivity in the Saudi healthcare sector.
- Increased opportunities for foreign participation in professional development and training in the Saudi healthcare sector.
- Rising wages and a growing number of Saudis working in pharmaceuticals manufacturing.
- More Saudis enrolling and graduating from medical programs.
- Increased opportunities for foreign investors in Saudi Health IT.
- Growing medical insurance coverage in Saudi Arabia.
- Consolidation in the global medical device industry.
- The economy in the U.S. healthcare sector becoming more consumer-driven and value-based.
- Increasing U.S. demand for hospital and ambulatory services.
- Technological innovations, especially with medical devices, placing downward movement on costs in U.S. healthcare sector.
- Eased U.S. FDA therapy approval procedures.