How did AstraZeneca match actors, resources and activities to develop network relationship into Egyptian market?

(A case study of AstraZeneca entry into Egypt)

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Introduction

The International Monetary Fund (IMF) defined Foreign Direct Investment as an investment in a market from another market investor, in which a resident in one economy (the direct investor) acquires a lasting interest in an enterprise in another economy (the direct investment enterprise). The interest in such investment means a long-term relationship between the direct investor and the direct investment enterprise and gives the direct investor an effective voice, in the management of the direct investment enterprise (IMF, September 2003).

According to the US Department of Commerce, foreign direct investment occurs whenever a US citizen, organization, or affiliated group takes interest of 10 percent or more in a foreign business entity. Once a firm starts foreign direct investment, it becomes a multinational enterprise (Hill, 2009).

The first form of foreign direct investment is joint venture, that happens through creating a new entity and new assets by contributing equity from foreign entity and domestic entity, joint venture can be for one specific project or a continuing business. Merger and acquisition is the second form, occurs when the foreign investor acquire or merge with an existing firms in the foreign country. Greenfield is the third form of foreign direct investment, occurs when the firm establishes new organization in the foreign country (Hill, 2009).

According to Nabamita (2009) the emerging markets should search for technology investments, to develop the market mechanism and to improve management skills. However, the investor sets conditions for investing abroad. These conditions may include; pay back period, return on investment, the effectiveness and efficiency of the market, the potential of investments, avoiding investment risks, and money transfer policy in the foreign market. In order to achieve these conditions, investors seek lucrative secure markets.

The benefit of foreign direct investment inflow has important impact on the overall economy, especially on management knowledge, industrial knowledge that generates positive externalities in the form of technology transfers. This produces spillover effects of knowledge and adds to the capital stock of an economy (Nabamita Dutta, 2009).

Problem Background

According to the Egyptian Ministry of Trade and Industry, the very intense period of Egypt’s pharmaceutical manufacturing potential growth was in the 1980s and early 1990s, when many multinational producers entered the Egyptian market with Greenfield investments. Since this period there has been increasing stagnation and a
decline in international competitiveness in the Egyptian market. This statement is ended with the background of AstraZeneca’s significant investment in a new manufacturing plant at 6th of October City. However, this positive growth should be analyzed as one-off alongside difficulties in other parts of the sector (Ministry of Trade and Industry Report, 2005).

The main reason to analysis the current situation for pharmaceutical sector in Egypt, is to find out how matching accrued between AstraZeneca and Egypt. Particularly, that Egypt had a rigid defensive economic policy regarding pharmaceutical sector, which has become roughly out of date at the time AstraZeneca took a decision to enter Egypt (Ministry of Trade and Industry Report, 2005).

The key objective of the policy applied in Egypt is to keep prices of pharmaceutical products as low as possible, at the same time expanding the level of domestic manufacture of products consumed domestically. The policy has been successful in meeting its objectives with prices being maintained at low levels and 75% of the domestic consumption of dosage products manufactured domestically (Ministry of Trade and Industry Report, 2005).

However, AstraZeneca did find the market profitable, or there are matching between market actors, activities and resources, otherwise the investment were not allocated in the Egyptian market.

**Problem statement**
What kind of matches has been done between AstraZeneca and Egyptian government to facilitate AstraZeneca entry to the Egyptian market?

**Purpose**
The purpose of this paper is to investigate how did AstraZeneca matched actors, resources and activities to develop network relationship into Egyptian market.

**Limitations of study**
According to shortage in time, there have been deficit in collecting primary data from AstraZeneca in Sweden. The disclosure limitation in the Egyptian market stand as an obstacle to understand some points as what kind of incentives did AstraZeneca got from The Egyptian Cabinet, the pricing issues discussed with the Egyptian Government. This has prevented the author from making comparative analysis. The results were general conclusion for the gathered data. The paper focuses mainly on the pharmaceutical industry in Egypt.
Research Questions

Does pharmaceutical industry in Egypt profitable to attract AstraZeneca?

What kind of matching is done between AstraZeneca and Egyptian market at the micro and macro level?

What are the main obstacles AstraZeneca have in Egypt?

Theoretical Approach

Network model

Håkansson (2006) refers to network theory, which is outcome of broad research programme dealing primarily with the functioning of business markets, and is collections of studies done by many academic's researchers. The network model of the organization-environment boundaries is based on observations that companies environment has a limited actors. Actors here referer to organizational entities, which is involved in continuous exchange relationships with the company such as government authorities, suppliers, competitors and customers.

The proposal of the network model refer to structured relation and interfaces for each company constituted by a set of actors. As a result of this interactive relations a company and actors, relationships build up links of resources and activities exchange with those of another. These linkages are in continuously developing process over time and considered as complex network between individuals in both organizations (Håkansson, 2006).

Ford (1986) points out that actors carry out activity; those actors follow their own perception of the interacting party's activity pattern. Activities in the industrial network are based on the actor’s activities pattern, the activities between parties involve adaptation and integration of knowledge and routines of both sides. The mutual dependent relationship strengthens with time, and either party can gain access to the other’s resources. The network help parties to confront solutions for linkage or operation problems, reciprocal knowledge and capabilities are revealed and developed by the two parties.

Actors use the existence of harmonizing or competitiveness in their network to create multilevel relations, this relations effect both company performance and effectiveness, because it effect company operation in a network (Håkansson, 2006).

While the company growth, the need for expansion in other market is a need for that growth; Forsgren (1990) argued that industrial network composed of activity or units, which is functionally linked via transactions of physical resources or
knowledge. This activity or units often has its specific function in this system and frequently obtains components from other units therein.

Tikkanen (1998) argued that network approach explain the international market exchange as the result of interaction between discreet exchange relationships among market actors, as a result the internationalization of firm is a consequence of network relationship development with foreign market actors at both the macro and micro level. A firm’s network can be important supply for foreign market information and knowledge that save a firm long time to acquire at a high cost, network therefore accounted as speed information and operational knowledge transfer method (Chetty and Campbell-Hunt, 2003).

A pharmaceutical manufactures produce raw materials and tablets, as a part of a network consisting of firms, which supply essential components for the pharmaceutical production, such as pharmaceutical machines, packing machines, raw materials, laps components for research. The network also includes purchasers, chiefly Ministry of Health and public health sectors, such as public hospitals, private hospitals and clinics, private purchasers, and competitors.

Johanson and Mattsson (1988) find out that a company process for internationalization as a process, a company may uses its partner’s foreign network to establish and develop foreign market position.

The major contribution of network theoretical perspective to international process using a network approach that a company internationalization is never a solo effort, but is a outcome of formal and informal network relationship. There is always a third party involvement in the foreign company entry process, those effort take a form of governmental assistance programs, financial programs and governmental incentives, foreign distribution and marketing agents, local or foreign partners and consequently it is important for a firm to organize these third parties in a manner that maximize the advantage of the network and that network is the more appropriate unit of analysis (Mtigwe, 2006).

Mtigwe analysis are parallel to the same findings for Ellis (2000) that foreign market entry may be a result of initiative taken by third party, as a government, or a supplier in the foreign market interested in developing a relationship with a focal firm. To framework this interactions between parties Ghauri developed matching approach as one of the network theory applications.

According to Ghauri and Holstius (1996) industrial manufacturers develop relationships with one another, ending with linkages of multifactor’s network relationships. The network based on three factors, actors, activities and resources. Each company establishes relationships with other companies, with customers, suppliers and authorities, all of which are actors in the company’s network.
A model for pharmaceutical market entry process

AstraZeneca entry into Egypt may trace on the matching approach developed by Ghauri and Holstius (1996). Therefore explaining matching approach is important in understanding both empirical findings and analysis. The model is based on three phases including actors, resources and activities, which position the company in the foreign market through the company network based on these three actors.

(Figure 1) explain the elements of the model, the actual establishment process in three phases including actors, resources and activities.

The Establishment process

According to Ghauri and Holstius the establishment process for a company in a foreign market can take three phases, search phase, project phase and the establishment phase. In each of these three phases the three network variables: the actors, activities and resources are present in view of the fact that actors control the resources and perform activities (Håkansson, 1989).

The search phase

In this phase the company is competitor in the national market, according to Dunning's (1997) the international production occurs when the firm has ownership-specific advantages, for both tangible and intangible assets that foreign competitors do not have, and location advantages by locating in that foreign market. Encouraging incentives or policies make a company desire to reduce transaction costs, a strong incentive for relocating production to particular offshore locations. The search phase is complicated in the developing markets, because market research and informatics infrastructure is often underdeveloped.
The project phase

The company here structures a general vision of the market and examines the operating opportunity. The emphasis is on creating successful contact network and on developing relationship (Johanson and Mattsson, 1988). The market knowledge is enough and can lead to commitment decision, and the evaluation of resources at the market environment, the knowledge is based also on the present and future demand and supply, GDP growth and inflation rate. These factors will clarify the entry mood and turn to the next decision of establishment phase.

Current activities for the company at this stage accounts as a prime source of experience. Johanson and Vahlne (1977) argue that experience could be gained alternatively through the hiring of personnel with experience, or through advice from persons with experience, this way integrate the experience in the internationalization process.

Establishment phase

The company consider in good positioning in the new market, good knowledge of the environment of the market, it has built up a broad contact network and is gradually starting its operation (Ghauri and Holstius, 1996).

This phase a result of relationship process where actors on the macro and micro level did create a mutual trust through gradually learn about each other's needs, resources, strategies and activities, still the firm have specific advantages than local competitors in the foreign market.

Environment & Position

A company positioning in a network create an environment surround the company, environment refers to factors such as legal, language, laws, public and semipublic authorities regulations, economic factors and infrastructure, level of technology. The environment surrounding the company influences the actors, them behavior and activities, the availability and exchange of resources in the process. The harmony and integration between actors enhance the environmental factors may influence the entry process and the company position in the foreign market (Ghauri, 1992). Håkansson and Snehota (1989) defined a company position by the role of the company in the network and the contribution to it and the strength of its relationships with other actors in the environment surrounding a company.

Through each phase of the entry process, a company has a particular position based on matching's results and activities exchanged with actors, and how a company did develop relationship activity.

Matching at the global level

The conceptual meaning of matching used by Ghauri (1992) define how the development in creating successful business network relationship can be enhance
and develop between two countries at the global level, how two different countries in culture, legal, political and economical dissimilarly, could integrate and develop the activities and resources to match companies to enter that foreign market. Nieminen and Tönnroos (1995) suggest that adaptation in the network approach is based on the company management (company actors) relationship and activity level. The matching cover also everything from facilitating system provided by governments and international organization to company-specific requirements and company activities. Holstius (1990) defined matching as consisting of chain of procedures taken at global, macro, and micro levels to smooth the progress of the growth of the business relationships between companies in dissimilar countries.

At the global level, matching consist of international multilateral agreements, agreements by means of communication and relationships developments such as funds, development programs. World Bank and the European Bank for Reconstruction and Development are example of organizations make agreement on the global phase (Ghauri and Holstius, 1996).

**Matching at the macro level**

At the macro level, matching is more relevant to business function such as finance, legal, personnel, production, and R&D. Where governments take bilaterally agreements to facilitate business entry and operations at company level. Legal matching at the macro level could be agreements to avoid double taxations, investment protections, and even investment incentives and improvements to avoid operational obstacles. At the financial level, matching could be soft loans provided from foreign banks in the host country, export credits and guarantees, low import tariff for raw materials for production. Those sorts of matching are developed by trade delegations, visits at ministerial level, and seminars and conferences organized by authorities (Holstius, 1991).

Ghauri (1992) pointed out that matching at global and macro level facilitate the preconditions for market entry.

At the macro level Dunning and Narula (2004) view the fundamental difference in the objective of MNEs and the democratic national governments, the objective of the MNE is to maximize its shareholder welfare, while the objective of the national government is to maximize the welfare of its citizens (Ghauri and Buckley, 2006).

However, one of the main economic debate and controversy today is the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs).

TRIPs are now a key part of the trading system under the World Trade Organization (WTO) framework, TRIPs refers to all technology-based intangible assets of a firm, new formula, Research and Development in pharmaceutical industry, new product or a process, a new molecular entity, and a like. The effect of TRIPs on pharmaceutical price is that drugs prices should be the same worldwide (Rao and Klein, 1994).
The TRIPs treaty has impact implications for economic development and the benefit of MNE innovation, funding and location of R&D, MNE linkage with the public sector, academic institutions and foundations, technology transfer and spillovers.

**Matching at the micro level**

Matching at that level refers to the action series taken to facilitate the operation or the successful of the entry mood, and the choose of the entry method to operate in the foreign market, if a company are going to use joint-venture contract to operate, or agency contract or choosing the Greenfield investment method, that is depend on how matching factors at the micro level suite the company.

For industrial company, at the operation level, reducing the technology gap between the agent or the joint-venture counterparts to meet quality requirements is important micro match, also adapting production technology to suit the local conditions, for example some technology used in Sweden can not be used in Egypt because Egyptian weather is sandy, and there is sandy storms sometimes, that can make robots out of function. Acquiring basic knowledge of the counterpart’s culture and using native employees constitute matching of personnel at the micro level. The choice of right persons to run a foreign company at different culture level is a vital to develop mutual trust and develop network relationships in the foreign market, such as through common visits at the business level (Holstius, 1990).

![Diagram](https://via.placeholder.com/150)

**Figure 2** Ghauri and Holstius (1996).

Figure (2) view the integration in matching process between a foreign company from Western market economy and Transition economy.

**Pricing Options for pharmaceutical producers at the micro level**

According to Kremer (2002) price discrimination includes selling the same-patented drug at different prices in different countries depending on the market pricing policies. That mean lower price in developing countries where demand is price elastic, while high price in developed countries where demand is price inelastic. While price differentiation could be a solution, it is a problem in same time, if this
strategy used as arbitrage through re-exports from developing to developed countries.

The profitability of the pharmaceutical industry depending heavily on the Research and Development programs carried out by MNEs, this is the core concept in this industry, that is why it very important for emerging markets to attract those MNEs to the local markets, more than MNEs interest to entry those markets (Rugman and D'Curz, 2000: Ghauri, Hadjikhani, and Johanson, 2005).

*The role of matching in facilitate entry process*

Figure (3) show the allocating process in the foreign market is based on three different phases represent the foreign market entry by matching concept based on network theory. These three phases explain how companies build up relationships and market position (Håkansson, 1989). The activities performed by actors in the network at the three phases of the process of entry into foreign market can be explained by matching concept, as it is explained above matching take a place in global, macro and micro level, where matching develop the company network relationship with different counterparts, with companies and with authorities.

![Diagram showing the phases of entry process](image)

*Figure 3 the development in the matching process, Ghauri and Holstius (1996).*

The matching at the micro level discuss strategic matters linked to a company relationship with different external actors in the market, how the company identify and get access to attractive locations for manufacturer area, how a company gathers and use market intelligence and infrastructure available, recruits staff, how it identifies and develop relations with local authorities (Ulf Elg et al., 2007).

Elg et al. (2007) argue that the position attained by a company as it established itself on an emerging market may depend on whether it is able to perform efficient matching and networking activities on that market or not. The efficiency of a company in the new market will be based the firms’ capacity to identify and approach the relevant actors.
Actually the pharmaceutical industry has its own special character as it will be shown later in the empiric part, as there are many developing countries struggle to attract multinational pharmaceutical manufacturer to decrease imports with foreign currency, develop pharmaceutical national production, that make actors at the macro level facilitate for pharmaceutical MNEs the network and incentives, enhance market resources to suite the pharmaceutical MNEs requirement to enter the foreign market.

**Pharmaceutical MNEs Risk**

Intellectual property market has patent problems that are not seen in tangible assets or even services market (Arrow, 1962). This problem present market failure approach, because firms may be unable to fully gain the value of investments in research and development costs of intellectual property. There is empirical evidence of market failure in investment in intellectual property for pharmaceutical MNEs (Redding, Griffith, and Van Reenen, 2000).

There is high risk in pharmaceutical intangible assets, the mismatching between revenues and expenses for research and development and final product could affect MNEs share price, while MNEs invest roughly in R&D during the decade preceding 2005, the R&D intensity (R&D to sale ratio) of U.S. MNEs averaged about 16.0% (PhRMA, 2005). One of the facts is that just six developed countries accounted for 90% of patents in pharmaceutical industries between 1985 and 1995. The U.S. only accounted for half of them, which make pharmaceutical innovation, R&D is the stuff of the developed countries MNEs (Lanjouw, 2003).

The research and development in pharmaceutical production have become more complex and it takes 10-15 years to develop a new drug. The average cost of researching, developing and introducing a new drug in the U.S, in 2000 was about $800 million, almost six times the cost in the 1970s (DiMasi, Hansen and Grabowski, 2003). Only three of ten marketed drugs produce enough revenues to cover or exceed average R&D costs (Grabowski, Vernon & DiMasi, 2002). The effective patent life in the U.S. market is average about 12 years.
Method

The methods outline how information has been collected in order to realize the aim of this study. It is explaining also how the data shall be analyzed.

The selection of AstraZeneca and the topic is based on the question to Ministry of Investment in May 2010, regarding the main sector for Swedish investments in Egypt, the answer were pharmaceutical sector and the main company is AstraZeneca, even AstraZeneca is Anglo-Swedish Company, but still AstraZeneca is one of the important firms in Stockholm Stocks Exchange Market (OMX), the consequences for some questions regarding market performance for pharmaceutical sector. The findings is defensive market strategies, this increased the interest to understand the reasoning for AstraZeneca entry into Egypt. Egypt is the motherland of the author and getting access to reliable information would be easier.

Many writers on methodological issues find it helpful to distinguish between quantitative and qualitative research. The status of the distinction is ambiguous, because it is almost simultaneously regarded by some writers as a fundamental contrast and by others as no longer useful or even simply as ‘false’ (Layder, 1993).

However, there would seem to be little to quantitative/qualitative distinction other than the fact that quantitative researchers employ measurement and qualitative researchers do not (Alan Bryman, 2007).

Hammersley (1992a) lies midway between the two positions outlined above. He suggests that validity is an important criterion but reformulates it somewhat. For Hammerersley, validity means that an empirical account must be plausible and credible and should take into account the amount and kind of evidence used in relation to an account. In proposing this criterion, Hammersley shares with realism the notion that there is an external social reality that can be accessed by the researcher.

In this paper validity based on the persons interviewed and data gathered, to expain and answer the research questions, the theory and interviews question are relevant and valid to the research subject.

Hammersley also suggests relevance as an important criterion of qualitative research.

Relevance is taken to be criterion of qualitative research. Relevance is taken to be assessed from the vantage point of the importance of a topic within its substantive field or the contribution it makes to the literature on that field.
Qualitative research tends to view social life in terms of processes. This tendency reveals itself in a number of ways. One of the main ways is that there is often a concern to show how events and patterns unfold over time. As a result, qualitative evidence often conveys a strong sense of change and flux.

According to above analysis, this paper is carried out on qualitative approach method. This is due to the fact that in order to investigate the matching phases between AstraZeneca and opportunities exists in pharmaceutical sector in Egypt, it would be practical to apply a qualitative approach than a quantitative. The validity approach explained by Hammersley did affect the choice of interviewed respondent, and to make the results more reliable, the paper based on documents gathered from Ministry of Trade and Industry, as interviewing a researcher to explain the trends of those papers, to increase the relevance of data gathered to the theory choseen.

The critique of qualitative research is too subjective by mean it relies too much on the researcher’s often unsystematic views about what is significant and important, and also upon the close personal relationships that the researcher frequently strikes up with people studied. Difficult to replicate because of the unstructured nature of qualitative data, problems of generalization and lack of transparency are also critiques for qualitative research (Alan Bryman, 2007, s. 423).

Inductive theory, it involves induction, as the researcher infers the implications of his or her findings for the theory that prompted the whole exercise. The finding are fed back into the stock of the theory and the research findings associated with certain domain of enquiry, while the deductive method represents the commonest view of the nature of the relationship between theory and research, by mean in the case of network theory, matching theory, and pharmaceutical obstacles, the results are already known from theories and research paper conducted by Ghauri, Buckley, Johanson, and others, and it could be applied on the Egyptian market. In general qualitative studies based almost on inductive theory while quantitative research based on deductive theory. This paper is carried out with a hermeneutic approach since it is interpreting the empirics gathered, based on theories, interviews and the writer analysis.

The results are based on interviews, investigations and analysis of foreign direct investment theories.

Organizational documents is a very heterogeneous group of sources that is of particular importance to the business and management researcher, because documents can offer at least partial insights into past managerial decisions and actions, they can also be useful in building up a timeline particularly in processual studies (Alan Bryman, 2007, s. 566) Such documents need to be evaluated to be clear and comprehensible to the researcher, though this is not to suggest that the analyst of documents should be complacent. Issues of credibility and representativeness are likely to exercise the analyst of documents somewhat more.
To avoid the an accurate representation for organizational documents, the empirical part laid on multi sources documents and reports such as Ministry of Trade and Industry Report on Pharmaceutical Sector Development Strategy, which founded important in explaining the trends in the Egyptian market during AstraZeneca decision for entry.

**Primary Data**

Primary data were obtained through direct interviews. The data were collected through semi-structured interviews with the executive responsible for AstraZeneca in Egypt. The executive responsible for General Authority of Investment in Egypt and the executive for Swedish trade office in Cairo.

The flexibility in semi-structured questions could facilitate the interviews regarding the Egyptian culture, the complexity to have direct answers or even ask direct questions, regarding to deficit in information disclosure in the Egyptian market culture.

The research questions were e-mailed in advance to the respondent, appointment were prepared with executives secretaries, and as mentioned above, semi-structured interviews where occurred, the answers were written directly under the interviews in kind of hints, to be documented later.

**Secondary data**

Secondary data were obtained through articles and books gathered through Mälardalen Högskolan library, Uppsala University library, web sites and international organizational documents, such as doing business in Egypt 2008/2009. The author received printed documents from Egyptian Ministry of Investments, printed documents from Ministry of Trade and Industry regarding pharmaceutical industry.

**The selection process of personal interviews and their contribution to the empirical findings**

The interview respondents were carefully selected. The respondents have enough knowledge about the firm’s activities, both Swedish and Egyptian markets and investor’s relationship. The interview respondents were Head of departments and directors for GAFI same time Minister of Investment assistant, Swedish Trade office and AstraZeneca Marketing President.

The interviews were conducted personally. The interviews were conducted in Egypt. Each interview was for more than one hour. The interview was documented. A sample of the interview document was emailed to respondents in order to check for accuracy and to ensure if it accurately reflects their opinions, ideas and experience about Egypt.
**Critique of methodology**

It should be noted that the result of this paper couldn’t be generalized to all multinational enterprise. The paper targets only pharmaceutical firms. The analysis and conclusion is limited to pharmaceutical firms.

**Empirical Findings**

Egyptian economy is one of the transition economies in North Africa and Middle East; the evolution economies in North Africa and Middle East are emerging as attractive target market for foreign multinationals’ enterprises (Doing business in Egypt, 2009).

**Matching at the Global Level**

Although the threat is still chaos in the Middle East because unstable political situations, and the situation in Tunisia as a threaten factor for foreign investors today, still a remarkable economic growth taking place in the Middle East and North Africa, and raised the interaction, especially across the North of Africa.

North African region and European Union established the Joint African-EU Strategy, which is the framework for EU-Africa relations, with the first strategic plan covering 2008-2011 including eight strategic partnerships. One of those strategies is Africa-EU partnership on Trade, Regional Integration and Infrastructure. One of the long-term objectives of this co-operation is a linkage between the European Union and the African countries close to Europe (Council of The European Union, 2010).

According to Egyptian Ministry of Investment, Sweden in particular has demonstrated an increasing interest in trade relation and in making direct investment in Egypt (Ministry Of Investment, 2010).

The Swedish Trade office particularly supports feasibility studies of investment projects that promote co-operation at the enterprise level between the Nordic and Egyptian market. The international banks operate in Egypt cooperating with local Egyptian banks provide loans and guarantees for investment projects, and aims to increase the investments of Nordic enterprises in Egypt according to the interviews.

According to GAFI Director, the Egyptian Investment Minster and The Swedish Diplomat (Swedish Ambassador) discussed bilateral investment cooperation promotion, areas of joint investment in the fields of communications and IT, eco-friendly projects, solid waste recycling, pharmaceutical industries, wood industries, and building materials. Around 90 Swedish corporations run investments in Egypt, more than 50% of which were founded over the past five years alone. They invest in a number of economic sectors, on top are industry, especially pharmaceutical industries, tourism and financial services, the two sides agreed to initiate an
executive program to develop their joint investments and exchange investment missions, as well as developing the contractual framework of bilateral investments. All the above-mentioned measures are examples of finance matching at the global level.

**Matching at the Macro Level**

When AstraZeneca starts operate in Egypt, which is emerging market, there are dissimilarities in environment of operating than home country (Sweden, England or North America). The differences in the economic environment, including infrastructure, level of technology, and in the political, legal and cultural environments. As a result, incentive for operating facilitates AstraZeneca entry into Egypt.

Therefore, it is important to analyze what kind of problems AstraZeneca have met in establishing subsidiaries operating in Egypt and what kind of incentive could facilitate foreign direct investment. It is known in literature on traditional international entry strategies that foreign investors face great problems entering far-away, culturally different countries (Ghauri and Holstius, 1996).

General Authority for Investment (GAFI) Director indicate that TRIPs application in the Egyptian market is one of World Trade Organization conditions for Egyptian governments, and the delay in applying TRIPs make Egypt not attractive market for attracting pharmaceutical MNEs with R&D intensity, specially in the pharmaceutical sector.

Matching model illustrate how differences in the economic, political, legal and cultural environments between this Anglo-Swedish firm and a transition economy as Egypt can be overcome, describe matching in different levels of government and business functions in different phases of the establishment process, and analyze how matching facilitate business entry into Egyptian market.

According to AstraZeneca Marketing President and Swedish trade office director, the growth in GDP is another considerable factor match AstraZeneca investment plan in Greenfield investment in Egypt, the increase in population rate, the growth rate for capita spending on pharmaceutical production, and government budget concerning pharmaceutical sector development, all of those factors are very attractive for pharmaceutical producers.

The Egyptian Ministry Cabinet improve market performance through continues meetings and seminars with economic ministers and ambassadors from developed countries, visiting's to European countries to activate treaties and agreements regarding binary trade projects.

Financial matching at the macro level includes soft and mixed loans, export credits and export guarantees, hedges strategies for currency exchange rate. According to Ministry of Investment, GAFI, and Swedish Trade office in Cairo, there are bilateral agreements between Sweden and Egypt in developing management programs.
facilitate investments information’s, same thing is between British Chamber of Commerce and Egyptian Ministry of Trade and Industry.

The legal matching at the macro level are agreements to avoid double taxation and investment protection agreements, in this paper this point is too important because of Agreement on Trade-Related Aspects of Intellectual Property (TRIPs).

**The establishment process**

The establishment process can be divided into three phases, the search phase, the project phase and the establishment phase (Ghauri and Holstius, 1996). According to Håkansson (1989) the three network variables- actors, activities and resources – are present in all phases (micro, macro and global phase) and they are mutually dependent, because actors control the resources and perform activities.

![Figure 4 view some of the three variables, Actors, Activities and resources in the network phase (Ghauri, 2007).](image)

In the figure above actors, activities and resources are parts from one triangle, and this triangle is changeable from phase to another phase, for example the actors and activities in macro phase is different than actors and activities in micro phase.

According to ExportRådet director in Egypt, the Swedish institute in Alexandria co-working with Swedish Trade Office (ExportRådet) provides management development projects to Swedish-Egyptian investments to improve the establishment process for Swedish and European investments in Egypt, the
management development projects provided in funds given from Swedish and European organizations.

**Matching at the micro level**

In AstraZeneca case, the matching model may vary than Ghauri and Holstius (1996), because in the search phase, the company had already long term relationship with the Egyptian market, and they did not need to concentrate on getting information about Egypt (GAFI, 2010). AstraZeneca have gained information from local counterparts and market knowledge through exporting office and agency contract, which developed relationships and mutual trust. AstraZeneca had optional factor on building up a contact network and develop relationship (Johanson and Mattsson, 1988). That is why; there is a replacement from search phase to a network phase, but still this phase not enough to understand the decision for direct investment.

The large sector of Swedish investment registered today in Ministry of Investments is the pharmaceutical industry. According to GAFI Director Egypt does not produce raw materials for pharmaceutical industries, but Egypt impose low customs and tarrif on imported pharmaceutical raw materials. This make the production cost is low compared with other countries, and that is one of the micro matching factors.

![Figure 5](Ghauri and Holstius, 1996) Model for a foreign market entry process, adjusted to AstraZeneca in Egypt.

In the network phase, AstraZeneca have enough information about the market, has knowledge about its own activities and market demand, local stakeholders, and create accepted level of mutual trust, to start the second phase, which is operational phase, this phase is more deeper relation with the foreign market, where the company started a project phase, and created market analysis for operating opportunities (Johanson and Mattsson, 1988).
Finally, the establishment phase, the company has a good position in Egypt, has created industrial network, understood market environment, and starting its operations.

Each phase in figure (5) illustrates the change that occurs during the establishment process. Through the different phases, the company creates more strength relationships that facilitate the operation and the expansion or getting better competition position (Ghauri and Holstius, 1996).

The skilled low-cost labor in pharmaceutical industry sector is one of the micro attractive factors matched AstraZeneca micro phase in Egypt according to GAFI Director and AstraZeneca marketing director.

According to GAFI director and AstraZeneca Director, TRIPs application in the Egyptian market was important factor to attract AstraZeneca, the development in drugs registration procedures in Egypt and the protection given through TRIPs is important to pharmaceutical production.

When asked about the main obstacles in Egypt, GAFI director answered that the deficit in quality management in public sector is one of the main reasons for retard investment developing, Egypt have high potential to attract more FDI, but there is real deficit in good quality management staff in the Governmental sector and even in some privet sector, that affect set strategies and plans to acheive the required goals.

Another obstacle faced by foreign investors in Egypt, the respondent gave an account of the situation. Recently land prices in famous industrial zones such as 6th of October and 10th of Ramadan are too expensive, so in Cairo or around Cairo and in some industrial areas or big towns it is hard to find the good location. Labor and locations in most of cases does not match, if the investor find the good location then he have problem with labor in that location, Actually that is logistic problem and the third problem is the infrastructure, the government work hard last five years to develop infrastructure and still some work need to be done. However, AstraZeneca got an incentives on the land for manufacturar in Egypt.

On the question of expatriate, GAFI director answered, that there is a rate for each 10 Egyptian employees investor could bring one expatriate or employee (1/10 rate). Moreover, GAFI gives many incentives to invest in Upper Egypt today, such as free land, and 10,000 Egyptian Pound incentives for the investor for each labor. According to AstraZeneca Director, AstraZeneca depend on Egyptian employment with multinational experience, to facilitate and enhance the company network relationship in the Egyptian market, that solve many cultural and operational knowledge problems.

The tax incentives given to AstraZeneca is one of the main match occurred at the micro phase, according to GAFI director AstraZeneca did start the operation under the old taxation low for foreign investments, that is mean AstraZeneca has ten years tax free rate, and after the ten years the company will pay 20% tax rate, which is low tax rate comparing with other tax rate in the Middle East countries. According to AstraZeneca president in Egypt, the incentives given to AstraZeneca were main point to take a
decision for invest or not, and the development in pharmaceutical market strategy in Egypt, especially that ICI operate for long time and have good operational knowledge about market pharmaceutical performance.

The tariff imposed on pharmaceutical raw materials is around 2% according to Ministry of Trade and Industry report, according to GAFI Director, this is the minimum tariff imposed on imports in the Egyptian market.

**Environment Adopting**

Environment adopting in figure (5) refers to the legal and political factors, infrastructure, economic factors, level of technology and cultural differences, which may affect the actors, their performance and activities, the accessibility and exchange of resources in this phase. These factors and the compatibility among the parties with respect to the environmental factors may influence the entry process and stances resulting positions of one or both parties (Ghauri, 1992).

**Network Phase**

The definition of the network phase is allocating a company in a network by its role within it, its contribution to it and the strength of its relationships with other stakeholders, such as authorities, suppliers, and competitors (Håkansson and Snehota, 1989).

In the process of entering a foreign country and integrating with the various environmental dissimilarities, a company's relationships with other stakeholders in the market constitute an important resource, which determines its position in the network (Hallén et. al., 1991).

According to AstraZeneca marketing director in Egypt, Imperial Chemical industries is operating in Egypt for long time, ICI/Syntex is one of six international companies involved in the production of industrial catalysts for Ammonia manufacture in Egypt, Fahmy (2005) view that ICI is the largest international producer to Ammonia in the Egyptian market, ICI is operating in Egypt since 1970th, in 1993 the company separated its pharmaceutical bioscience into new independent company called Zeneca Group, which later merged with the Swedish firm Astra AB to form AstraZeneca PLC.

According to the gathered data from both AstraZeneca and Ministry of Investment, AstraZeneca in Egypt did used the network relationship created by ICI/Syntex in Egypt to gain operating knowledge, and to facilitate the entry mood.

The bureaucracy is one of the Egyptian market obstacles. However, ExportRådet Director in Egypt answer that most of Swedish investments are huge investments, such AstraZeneca investments find more care from Egyptian government, and they provide a lot of facilities for investors, so bureaucracy is not an obstacle here, it could appear for solely investor with small and medium enterprise. The respondent add that infrastructure quality in Egypt is good comparing with other markets in Middle East and Africa (MEA),
and the Government working all the time to enhance infrastructure performance. All above factors facilitate the environment adopting for AstraZeneca operation in Egypt.

Another issue has to do with the location of pharmaceutical MNE R&D in the developing countries. Judging from the U.S. data (PhRMA, 2005), very little if any of the MNE R&D is allocated in the developing world. In 2003, Africa, Asia-Pacific (except Japan) and the Middle East combined accounted for 0.5% of the MNE world wide R&D, or less than two-tenths of 1% of their share in sales. An extraordinarily high proportion of the MNE R&D abroad (96.0%) was located in just four areas, U.S. (78.6), Western Europe (16.3%), Japan (2.4%) and Canada (1.1%).

That is why AstraZeneca also is attractive MNE to the Egyptian market, where AstraZeneca has high expenditure on R&D, while Egypt has a deficit in this sector. The Egyptian Government aims to decrease expenditure on imported drugs through facilitate pharmaceutical MNEs entry into Egypt.

*The role of matching in a foreign market entry process*

Figure 6 views AstraZeneca entry process into the Egyptian Market (Ghauri and Holstius, 1996)

Figure (6) illustrate the entry process with the three different phases: the global phase, the macro phase and the micro phase, these phases represents the core of the foreign market entry model for AstraZeneca. It shows how AstraZeneca did develop relationships and build up a market position. Network theory describes this process.

However, multinational pharmaceutical producers claim to extend the strength of TRIPs in emerging markets, and promise that would receive more inflow of foreign direct investments in these emerging markets, transfer technology, all of which contribute to raising living standards in these countries (Mansfield, 1994, Ghauri and Rao, 2009).
Figure 7 the chart view the development of the firm from local till emerging market positioning with main actors.

The figure (7) view, how MNEs benefit from the local market actors, such as Research funding, Universities, Government Labs, monopoly protections, while the merger between Astra and Zeneca has created more strong MNE, combined two strong areas for research and development, innovative products, these factors make AstraZeneca one of the world pharmaceutical MNEs competitors, AstraZeneca targeted later U.S. market to benefit from the lucrative R&D in that market and to strength the firm performance, the potential profitability in the Egyptian market, and through AstraZeneca network development, macro and micro matching actors and resources did facilitate AstraZeneca Greenfield investment in Egypt.

Interviews were conducted with Swedish and Egyptian experts in Egypt in order to determine the factors that attracted AstraZeneca to the Egyptian market, knowledge of Egypt business climate regarding pharmaceutical sector.

Based on doing business report 2010, Egypt has been amongst the top 10 reformers, for the fourth time in five years; and one of the most open and dynamic economies among emerging markets with real GDP growth averaging 7% between FY 2005/08.

The “world Investment Report 2009” by the UNCTAD has ranked Egypt as first in North Africa and third in the African region in term of net foreign direct investment inflows. Egypt has great extent of qualified, trained and motivated human resources, with a solid reputation as a net regional exporter of labor services. Gulf Countries attract the main share of most qualified and motivated human resources from Egypt. This vast pool of labor boasts multinational talents with multilingual capabilities. In addition, developments in design, technology and innovation have fostered more business activities in Egypt.
Pharmaceuticals industry in Egypt

According to General Authority for Investment and Free Zones Report 2010, the Egyptian pharmaceutical industry is the leading and major in Middle East and Africa (MEA).

Based on pharmaceutical report Egypt rank number 9th in business environment rating table, up two ranks than last year, notably, above Israel. However, Egypt rank in the bottom third of the list featuring 71 countries, reasoning is low per capita spending on drugs because of low income, and the risks present within the country’s pharmaceutical market operating environment, such as unfavorable pricing and reimbursement policies as well as the lack of adequate intellectual property (IP) protection (ADE, DOL, 2005).

The main obstacles for multinational pharmaceutical producers in Egypt today is the pricing defensive policy, this issue is under study to tack a decision from Cairo’s Court of Administrative Justice, they should issued a decision on the suspension of the Ministry of Health’s new pricing decree in April 2010. The Ministry of Health’s new pricing system makes drug prices dependent on market forces in other countries, which have different economic conditions and completely different prices based on different microenvironment, the result is new prices of new branded and generic drugs could be unaffordable for the majority on Egyptian consumers (Ministry of Trade and Industry, 2010).

Towards the end of the empiric’s findings, there are aware of two reports produced by Industrial Modernization centre, Development Options Limited and Ministry of Trade and Industry. The reports view Egypt’s Pharmaceutical Sector trends, Survival and Development Strategy; the reports are helpful to understand pharmaceutical industry in Egypt.

Based on the reports, pharmaceutical companies that undertake the manufacturing and distribution of the sector, there is also the significant role of a small number of multi-national pharmaceutical companies, that are responsible for a high proportion of the world’s production, research and development of new innovative products, and for their manufacture and distribution through their own international networks. The turnover of these individual companies is larger than many of the developing countries turnover.

The policy framework is more important for the pharmaceutical sector, than other sectors, due to the sensitivities and risks associated with supplying medical products. There is as much need to modernize the national regulatory and operating framework being applied to any national pharmaceutical sector, as to modernize it’s manufacturing facilities and manufacturers.

A lack of modernizing Egypt’s regulatory system has had a negative impact on the overall sector operating framework and environment for the domestic manufacture
of pharmaceutical products. There is a need to establishing stronger links between
the structure, content, transparency and implementation of Egypt’s regulatory
system, and the modernization and improved trading performance of its
pharmaceutical manufacturers, is the starting point for the pharmaceutical sector
development strategy (ADE, DOL, 2005).

Egypt has implemented a successful defensive economic policy relating to its
pharmaceutical sector, for over 20 years, but the policy has not been up-dated to
take into account changing external circumstances. The looming of full
implementation of TRIPS makes the implementation of strong reliance on defensive
economic policies, on their own, redundant. Egypt has relied on a strong defensive
economic policy much longer than other countries.

According to Ministry of Investment reports and Interviews regarding
pharmaceutical industry the government today work on some points, change the
defensive economic policies to an open pharmaceutical industry policy, design and
develop the old policies to modern Egyptian market and export pharmaceutical
production without breaching TRIPs regulations.

The report and interviews outcome to the situation that prevails in Egypt, and
indicates the benefit that can be realized to Egypt’s pharmaceutical sector from
changing current approach and policies.

One of the observations that those discussed changes’ in old policies took a place
before AstraZeneca final decision for Greenfield investments.

The Egyptian pharmaceutical sector has a persuasive need to find out a national
agreement on a new binary economic policy, between government and
multinational producers to be associated with economic and social policies applied
to Egypt’s Healthcare Sector.

The results of depending on rigid defensive economic policy in Egypt was a decline
in sector performance for at least the last seven years, that were a reason for urgent
need to a survival development strategy to be applied the coming years.

This stagnated in performance did result low contributions from the sector to
national economic growth, deficient in internally generated resources for
investment, manufacturing facilities, new product development, expansion or entry
new export markets and developing new brands, the Egyptian pharmaceutical
manufacturers have wide product ranges, which results deficit in specialization
more than being general and competitive almost in oral antibiotic, specialization is
required for success in export markets, that may reason the incentives given for
AstraZeneca to compete in different productions lines rather than Pfizer or GS&K.

To avoid increasing imports, the government aimed to give more incentives to new
multinational pharmaceutical producers to decline imports, and to support the
growth in exports, aiming to increase domestic production capacity by 10% per year
to reach domestic production capacity develop by 60 – 70% by the end of the five year period starts 2005.

The PhSDS in 2007 expected to enhance production performance through develop input materials entering final production in Egypt and enhance prices to international prices, unfortunately up to date multinational pharmaceutical producers has a serious problem with Ministry of Health regarding unfair pricing policies, and still a case in front of Administration Court regarding pricing for at least three years without final Judgment.

The trends of pharmaceutical FDI in the Egyptian market and International strategic alliances based on Ministry of Trade and Industry, Ministry of Health alliance is tending to develop activity regarding decisions on domestic and export market product positioning and selection, before specific FDI and strategic alliance projects can be identified. The documented gathered from both ministries view that ministers and members of the Government Cabinet have met AstraZeneca CEO in Cairo, The Swedish Ambassador, and the British Ambassador to affect economic agreements.

**Impact of Defensive Economic Policy before and after PhSDS**

There have been a number of negative impacts of applying the defensive economic policy, such as Egypt still relies on most of the input materials for producing synthetic dosage products being imported, even after applying PhSDS still Egypt depend on at least 75% of domestic production on imported raw materials.

In spite of such government support and development according to market PhSDS, obstacles exist that may prevent exports from increasing significantly. Such as pricing policies and product registration, which take two to three years, the development of recent legislation 2009 and 2010, registration has become more transparent and faster to shorten registration to 12-18 months.

According to Ministry of Industry data from 2007 to 2008 fiscal year, Egypt has improved pharmaceutical sector investment, when total investment reached 670 million Egyptian pounds, the Government Cabinet plan to spend still amounted to 1.3 billion Egyptian pound in the sector, and even though financial crises did decrease governments budgets, only the second half of 2009, Egypt’s pharmaceutical industry output value become 4.1 billion Egyptian pound, with 20% improvement than 2008.

Today Egypt is one of the major exporter of pharmaceuticals in the Middle East, holds 30% market share in the region. GlaxoSmithKline, AstraZeneca, Novartis, Pfizer and other pharmaceutical enormous producers in the world are manufacturing in Egypt. Egypt plans to build 180 laboratories in 2015, and they already constructed 76 labs in 2009, 2010.
In conclusion for the report, the defensive economic policy failed in controlling imports, it has acted as a considerable restriction on the development of exports, and increased the deficit in trade balance in pharmaceutical products.

Analysis

Global and macro level matching with Egypt market

According to Global macro level matching, Egypt in a process to harmonize laws with western ones for investment part, the Government established economic court for arbitration and mediation. The development of new laws has, however, also been rapid in many other authorities relevant to investment authority, this is the legal part of legislation matching (Ministry Of Investment, 2010).

AstraZeneca is a multinational firm that operates in the Swedish, British, U.S. and Canadian markets. In the network phase, AstraZeneca began its operations in Egypt by exporting its products; already Zeneca had an office (ICI) operating in Cairo since the 70th. The important actors, in addition to AstraZeneca, were the Egyptian and Swedish-British governments. The chamber of commerce, and the Egyptian Prime Minister, Minister of Health, Minister of trade and Industry in Egypt have went in long process, with both the two countries before the investment starts, those meeting with AstraZeneca management seniors led to agreement on establishing the next phase of the project which is AstraZeneca plant in Cairo is a result for an important form of governmental matching at the macro level took a place between AstraZeneca and macro actors in Egypt.

AstraZeneca has entered the Egyptian market with Greenfield investment 2004, although the obstacles in the Egyptian market, particularly the rigid pricing policy and TRIPs inappropriate applications in the market. According to Ghauri and Holstius (1996) such obstacles could effect the company decision for foreign direct investment, and these obstacles are more recognized in the earlier phase of entry process, and can only be solved on the macro phase, through matching approach between AZ and Egyptian government authorities. According to the data gathered from interviews and reports such as PhSDS, AstraZeneca and through developing network relationship, the company understood the development in the market, from applying TRIPs; to receiving incentives cover any loosees resulting from price discrimination. AstraZeneca did match the actors, resources and activities to position and compete in the Egyptian market, benefit from deficit in Egyptian R&D, AstraZeneca specialization in drugs area differ even than other multinational pharmaceutical producers in Egypt. According to the Ministry of Trade and Industry report, Egyptian Cabinet do a lot of efforts to attract pharmaceutical MNEs, to richness the pharmaceutical industry, minimize import cost, that can illustrate a vision for the incentives given to AstraZeneca to start producing in Egypt.
Based on Ghauri (1992) and Håkansson (1989), AstraZeneca developed long-term relationships and mutual confidence, through historical network relations in the Egyptian market. According to AstraZeneca Marketing President in Egypt, ICI office in Cairo has a long history activities in Egypt, ICI become Zeneca later, and AstraZeneca did benefit from agency contract for manufacturing products in the Egyptian market for more than 4 years, this agency contract did higher operational knowledge for AZ actors, and enhanced network at the macro and the micro level, even the choice of which products should manufacture in Egypt and which production techniques should be used in Egypt.

At the operational phase, AZ has knowledge about its own activities and market demand, the company according to the interviews in very good positions in Egypt, has very skilled staff, and created market analysis for operating opportunities, according to Johanson and Mattsson (1988) and to Ministry of Investment report the last year AstraZenecaunched corporate social responsibility programs, and donates a million for human rights activities in Egypt, such activities strength the company position (Håkansson and Snehota, 1989).

Egypt has done the most harmonize laws to attract pharmaceutical multinational producers, according to interviews and gathered data, applying TRIPs were a significant point for many multinational producers to decide to enter the Egyptian market or not. The development of new strategies has been rapid in the country. Egypt is economically the most developed, particularly in its pharmaceutical industry, banking system and industrial capability. The EU gives economic aid to Egypt, e.g. for development and the restructuring of industry.

The low-cost human resources is another attractive micro match factor between AstraZeneca and the Egyptian market, and in case of changing pricing policies, AstraZeneca is going to benefit from producing and exporting from its Egyptian subsidiaries. In addition, the imposed taxes from 2017 is only 20% taxes, that is low tax, comparing with other markets.

According to Swedish Export office director, the efforts done such as Swedish institute in Alexandria with co-working with Swedish Trade Office work on develop management. Swedish Embassy in Egypt co-work with Ministry of Investment give facilities to Swedish investors, the same doing British embassy and British Chamber of Commerce in Cairo, they give different kind of assistance, including economic restructuring assistance as well as export credits and investment guarantees. The Swedish Trade office particularly supports feasibility studies of investment projects that promote co-operation at the enterprise level between the Nordic and Egyptian market. The British banks and local Egyptian banks provide loans and guarantees for investment projects, and aims to increase the investments of Nordic enterprises in Egypt according to the interviews.

The Egyptian Investment Minister and The Swedish Diplomat (Swedish Ambassador) discussed bilateral investment cooperation promotion, areas of joint investment in the fields of communications and IT, eco-friendly projects, solid waste
recycling, pharmaceutical industries, wood industries, and building materials. Around 90 Swedish corporations run investments in Egypt, more than 50% of which were founded over the past five years alone. They invest in a number of economic sectors, on top are industry, especially pharmaceutical industries, tourism and financial services, the two sides agreed to initiate an executive program to develop their joint investments and exchange investment missions, as well as developing the contractual framework of bilateral investments. All the above-mentioned measures are examples of finance matching at the global level.

**Micro-level matching**

Matching at the micro level is explicitly concerned with steps taken by AstraZeneca, which are going to do business in Egypt. In network phase, the companies have long process knowledge about the market, the agency contract facilitate the operational knowledge in Egypt. They already create internal network and operational knowledge, through ICI first and agency contract later. It considered and evaluated the activities and resources of several local companies and came to the conclusion that there is potential for operating in Egyptian market.

The incentives given to AZ facilitate the process, and even enhance the investment to more expansion opportunity in the market. However, pricing policies still an obstacle for AZ in Egypt, regarding the profit and exporting opportunity.

**The project phase**

The actors in the project phase were the same as in the network phase. The central actors were, in addition to AstraZeneca, the GAFI and Ministry of Health. Direct contacts between AZ and Ministry of Trade and Industry were important. However, AstraZeneca had already operational knowledge about market functions, market demand and which products in high demand in the market.

Pharmaceutical productions and AstraZeneca research and development area are scarce in Egypt. Therefore, AstraZeneca needs to provide its products in return of incentives provided from Egyptian authorities.

As far as technology was concerned, micro-level matching of the production function was essential. The Egyptian actors were very demanding; they wanted AZ development productions, newest technology. The operational knowledge, under exporting and especially under the agency contract, help AZ consulting to understand which technology should be used in the Egyptian market, AZ also sent personnel to help ORASCOM (the construction firm which built the plant), with the implementation of the new technology.

AstraZeneca has covered the cultural problems in their co-operation with Egypt, Egyptian are suspicious about foreign companies. Therefore, matching personnel at the micro-level, in order to build trust, is considered very important. It is also
essential to get the right personal; AZ did cover the need of experiential personnel with high qualification from other multinational competitor in the Egyptian market to create the smooth information flow between the counterparts.

However, choosing Egyptian staff without based on expatriate is evidence that AstraZeneca had a strong network relation in the Egyptian market, and to be based on Egyptian staff with long-term experience in pharmaceutical MNEs did easy AstraZeneca environment adopting and strength AstraZeneca network.

AstraZeneca Marketing president argued that Egyptian population is attractive indicator regarding AstraZeneca decision to start Greenfield, while Swedish Trade office indicate that GDP growth is more important indicator for MNEs, during to MNEs theories reviewed in this paper, both indicators are too important, Egyptian GDP is growing according to Doing Business in Egypt report. For pharmaceutical producers that is meaning sales growth and potential profit.

The Establishment phase

One of the main facts for pharmaceutical manufacturer that the strengthen of a firm’s position in a network relationship, can be a result of the power gain from cooperation with international partners that have international operations and experience, even though the firm itself did not attend to enter that foreign market.

AstraZeneca, under the role of local level contacts was emphasized in the establishment phase, AZ, however, has good relations with authorities at different levels, which facilitated its operations in different phases of the establishment process. Know-how in Egypt, and the pricing policies and market communications still a problem. From the gathered information’s most employees in AZ are 99% Egyptians, no expatriates, and they were employed before in Pfizer, GSK, or Bristol Mayer Squib. British operational director and consultant stuff were sent to teach locals and recruit operational stuff. However, Egyptian rules give foreign investor to have one of each ten employees from the firm origin nationality.

With the implementation of TRIPS there is a reduced role for defensive economic policies, as with open borders, there are less policy instruments available to protect domestic manufacturers from external competition. The fundamental issue in this context is the reduced international competitiveness of the sector.

Based on Dunning and Norula (2004), Ghauri and Buckely (2006) Egypt did ignored TRIPs to maximize pharmaceutical production for native producers, during the period 1995-2005, TRIPs issue did stagnated the pharmaceutical sector in Egypt. When the Government decide in 2004 to apply TRIPs, AstraZeneca find the market more lucrative, especially with incentives given to foreign investors, those factors matched AstraZeneca micro factors.
Rao and Klein refers to TRIPs in kind of protection of research and development, and explain that the effect of TRIPs is return of innovation for MNEs risky investments in R&D, according to the interviews and reports, the development in the emerging markets and the growth of pharmaceutical sales in emerging markets, make Egypt very lucrative market for AstraZeneca.

According to Di Masi et. al. (2003) and connecting to ADE report, the cost of only one product R&D is $800 million, that make it possible to any competitor in the Egyptian market to compete with AstraZeneca new brand product, while it is important to AstraZeneca to produce in emerging markets to compete in expired patent products.

Ministry of Health Pricing Policy

Ministry of Health has successes in keeping product pricing at a low level to be available to Egyptian consumers according to low income level, through aggressive defensive economic policy, but that success have been examined within short-term healthcare objectives. The results of the pricing regime that has applied up to now are:

1. Deficit in profitability for the international manufacturers and deficit in expansion or R&D activities or product orientation.
2. Deficit in incentive to export as importing countries take into account the prevailing prices in the country of export.
3. Shortage in new product development, which is a serious issue for Egypt’s indigenous generic product manufacturers and is export obstacle.
4. Deficit in resources to implement international market and sales development campaigns.

This policy stagnated the pharmaceutical market harshly, changing in market strategy was a essentially, according to PhRMA (2005) and Kremer (2002), those changes in pharmaceutical sector performance make the micro resources and activities in Egypt suite AstraZeneca resources and activities.
Conclusion

Egypt has implemented a successful defensive economic policy relating to its pharmaceutical sector, for over 20 years, but the policy has not been up-dated to take into account changing external circumstances. This aggressive defensive policy affect market performance, pharmaceutical MNEs effectiveness and efficiency, the whole market performance starts to decline. The impact is active Pharmaceutical Development Strategy from Egyptian Government, incentives to attract new pharmaceutical MNEs to the market, change the defensive economic policies to an open pharmaceutical industry policy, design and develop the old policies to modern Egyptian market and export pharmaceutical production without breaching TRIPs regulations. This new market strategy development attracts and match AstraZeneca actors, resources and activities, to start Greenfield investment in Egypt. Already the market match in the micro level AstraZeneca micro phase, but the bureaucratic rigid system and policies, and the absence of TRIPs reduced AstraZeneca choice to have foreign direct investment, and choose exporting, agency contract, these activities got AstraZeneca in network relationship, and higher the commitment for deciding later to start Greenfield investment, when Egypt starts developing and reform pharmaceutical market performance and applying the TRIPs, which match AstraZeneca at the Macro phase.

However, population and GDP growth were the attractive indicators at the micro level to attract AstraZeneca. The low-cost human resources, give opportunity to AstraZeneca to produce in low cost and skip the taxes expenses for 10 years, this is another micro phase matching factors.

Finally, still pricing policies, and bureaucratic system is the main obstacles AstraZeneca has today in Egypt.
Appendix

The interviews in Egypt were conducted with:

- Promotion Department Head at General Authority for Investment and Free Zones.
- First Secretary Commercial Affairs Embassy of Sweden, and Head Director of ExportRådet in Cairo.
- AstraZeneca Marketing Company President.

The interviews

First interview: Promotion Department Head at General Authority for Investment and Free Zones: 26 of May 2010 – 9.30 am to 11.20 am

According to Mr. Tamer Moustafa: Promotion Department Head at General Authority for Investment and Free Zones:

According to the respondent, The attractivness for pharmacetical industries in Egypt is skilled labour in the pharmaceutical industry, and the leadership of Egypt in MEA region in this industry, where Pfizer Egypt was established in 1961 and was one of the first foreign companies to start manufacturing pharmaceutical and veterinary products in Egypt, Pfizer-egypt imports, exports and manufactures drugs in Egypt. GlaxoSmith & Kline have been in Egypt for long time, and even Bristol-Myers Squibb, that attract many other investors to start investment in the Egyptian market such as Hebi which registered as Swedish investment, and AstraZeneca which is Anglo-Swedish investment.

When asked if any forigen investor in pharmaceutical industry start pure FDI in kind of Greenfield investment in Egypt? The responadant answer that, any registered pharmaceutical company can start a Greenfield investment in Egypt and the evidence of that Hebi, they have started production in Upper Egypt where investors can have free land, and benefit from free taxes for 10 years, even there are Egyptian partners in this investment as The National Bank of Egypt, but still the investment registered as Swedish investment.
The respondent agreed that Egypt have skilled labor for pharmaceutical industry. According to him there is enough very skilled labour to cover and even to export to the rest of Middle East region, plus there are technician whom are semi-skilled labor, with little trainee they can be skilled machine operators, and they are very low-cost labor comparing with others emerging markets.

When asked about the main obstacles in Egypt, the respondent answered that the deficit in quality management in public sector is one of the main reasons for retard investment developing, Egypt have high potential to attract more FDI, but there is real deficit in good quality management staff in the Governmental sector and even in some privet sector, that affect set strategies and plans to achieve the required goals.

Another obstacle faced by foreign investors in Egypt, the respondent gave an account of the situation. Recently land prices in famous industrial zons such as 6th of October and 10th of Ramadan are too expensive, so in Cairo or around Cairo and in some industrial areas or big towns it is hard to find the good location. Labor and locations in most of cases does not match, if the investor find the good location then he have problem with labor in that location, Actually that is logistic problem and the third problem is the infrastructure, the government work hard last five years to develop infrastructure and still some work need to be done.

On the issue of bureaucracy and government strategies in solving them, the respondent said the Government ministry is cooperating with GAFI, organised one work shop, where investors can do all the required procedures in only one location, where there are representatives for all governments. This has improved the process but still there are obstacles based on other Ministries procurement and procedures like registration of the land, where GAFI can not do anything to improve it.

On the question if Egypt provide gurantee in terms of protecting FDI and intellectual property (IP) protection? The respondent answered no. First Sweden or U.K. does not have protecting agreement with Egypt on intellectual property protection but the local Egyptian law today protects intellectual property, TRIPs is still not in force but then the case is from Egyptian local courts consideration.

On the other hand there is guarantee for investments; there are law numbers 8 to 13 for protecting foreign investment, enterprises cannot be nationalized or confiscated.

The administrative remedy may not be sequestrated on the companies and establishments or seizure of funds or freezing funds or capitals.

It is not permissible for any administrative to intervention in the pricing of products, companies and establishments or to determine profit.

The author interrupted here that this part of the low does not match the pharmaceutical products prices, he added that pharmaceutical products is not from the activities covered by this law, and it is under the Ministry of Health rules because the sensitivity of this industry, however investors benefit completely from the law and guarantees for foreign direct investments.
On the question of expatriate, the respondent answer, there is a rate for each 10 Egyptian employees investor could bring one expatriate or employee (1/10 rate). Moreover, GAFI gives many incentives to invest in Upper Egypt today, such as free land, and 10,000 Egyptian Pound incentives for the investor for each labor.

On the question of tax incentives given to investors, the respondent answer that, there is no tax incentives, as the government offered before free taxes for 10 years, the firms had got this offer before 2010, they have the right to use that incentives. But after ministry of finance decline the taxes to 20% as flat rate tax, they removed the 10 years incentives. The free zones are taxes free for foreign investors with one condition that 70% of production is for export.

On question of tariff imposed on pharmaceutical raw materials, Mr.Tamer answer that tariff average is 6% but for many industrial raw materials tariff start with 2%.

When asked about the services GAFI provides for foreign investor, Mr.Tamer answer that GAFI try to provide fair value for investment and information, any facilities GAFI could provide to investors, as there is many studies for investment opportunities in Egypt.

When asked about the proportion of Swedish investment in Egypt. The answered were negative, the Swedish investment is too low comparing with Swedish FDI outflow, and the reason in his point of view that Swedish investor have not enough knowledge about Egypt. About the reason of closing Egypt trade office in Stockholm, Mr. Tamer answered that is a way of cost reduction from the Government for spending even that could hurt foreign investments because the office provide informations about the market.

When asked about how Egyptian Government work on foreign direct investment obstacles. There are a lot of efforts to improve performance and potentials, there is work to develop infrastructure in Upper Egypt, but the law and burocracy is too rigid and there is resistance for changing and for reforms, that need a time and more work on each obstacle sololy.

When asked GAFI strategy, the respondent gave account of privatisation of public firms to improve market performance and to open the market, GAFI work now on reform licens for imports tariff and customs to make it more effectiveness.

When asked about how Government Cabinet improve market performance through the international level, the respondent answered that there is continues meetings and seminars, visitings to European countries to active treaties, agreements regarding binary trade agreements.

Second interview: First Secretary Commercial Affairs Embassy of Sweden and Head Director of Swedish trade office in Cairo (Exportrådet) Cairo 1st of June 2010 from 12:45 to 14:00
The respondent is a First Secretary Commercial Affairs Embassy of Sweden, and he had the same roll in Dubai.

What is the main role of Swedish trade office in Cairo?

Swedish trade office in Cairo gives complete vision on the Egyptian market for Swedish investors, the office sales studies and research papers on investment potential and opportunities in the Egyptian market.

When asked about the main Swedish investors in Egypt, Mr. Cherif gave some examples such as ABB, Ericsson but they are registered under Ministry of Trade and Industry. Tetra Pak for example, the firm is Swedish originally but sold to Swiss investors, and in Egypt they have high sales to Juhayna milk and food industry in kind of machines, packing materials, most of these machines and packing materials coming from Sweden.

The respondent foreword that Swedish firms around 23 company operating in Egypt not 43 as Ministry of Investment announce, and they are brand names not all of them investment, Purcell is one example, it is Swedish American company, the owner is Swedish, the main office in USA and they have high sales in Egypt. In other investments such as Gamma Knife Centre, it is cancer and medical treatment centre and there is a part of Swedish investment in it but not pure Swedish investment.

When asked about the weight of Swedish pharmaceutical investment in Egypt. The response was that there is high import volume for Swedish pharmaceutical production and machinery to Egypt, but Swedish investments in pharmaceutical sector in Egypt is growing.

When asked about if Egypt is a target for Swedish investment, The respondent answered, Egypt is the second larger market for Swedish trade in Middle East and Africa region (MEA) after South Africa, the export volume from Sweden to Egypt is around 6000 million SKr, wood and paper, pharmaceutical, Machinery, IT and industrial equipments and materials, while Egypt export to Sweden is around 200 to 300 million Swedish Kronor, that is why there are deficit in trading balance.

When asked if Egyptian market has the potential for Swedish investments, the respondent answered that, there is a lot of opportunity to Swedish investors in Egypt.

When asked about disinvestment, the respondent answered thus; actually there is no disinvestment by mean of disinvestments, the figures can not give the real indicators for the investment movements between those two markets. First the statistics figures of investment volume from Statistikcentralbyrån is different than the statistics figures from GAFI, and the truth is in between, for example AstraZeneca not registered in Egypt as Swedish investment, because it is Anglo-Swedish, so it could be registered as British or American. On the other hand Hebi is Registered as Swedish Investment while great part of this investment coming from
Egypt by The Egyptian National Bank, even the Chairman he is Swedish Egyptian (Refaat El Sayd).

The respondent added that the numbers of disinvestment is not correctly because the return back on investments during the world economic crises had declined, the profit from Suez Canal has declined, the Egyptian employment in Gulf and money transactions has declined because of employments laid off in Gulf Countries, the return on tourism has declined, that is why return on investment in general are decreasing.

When asked if Swedish investors have enough knowledge about Egyptian Market. The respondent answered that the deficit in knowledge and information constructor affect opportunities and potential, and the problem with most of Swedish investors that they want to execute the investments without any plans that can lead to fail in investment or disinvestment.

When asked if Egyptian population is an important factor to attract more FDI, the respondent answered that population is not so important as the GDP growth, logistics, and the cost of FDI.

When asked if there is possibility of more investments in the Egyptian market or the market is saturated, the respondent answered that Egypt is one of the most growing emerging markets, North of Africa and South Mediterranean is growing. These are attractive markets for European capital movement, first for the physical distance, second after the difficulties for investments in Gulf countries. Furthermore, Egypt has many treaties with European Union countries and the market is free trade market plus the logistics improvement to attract more investments has developed combatively the last five years. For example, el Sokhna port, Alexandria logistics area, Upper Egypt industrial and agriculture investments zones. The government provides high facilities there for new Investments and free lands in those industrial zones out of Cairo.

The respondent add that Swedish institute in Alexandria with co-working with Swedish Trade Office work on develop management. Swedish Embassy in Egypt co-work with Ministry of Investment give facilities to Swedish investors, the same doing British embassy and British Chamber of Commerce in Cairo, they give different kind of assistance, including economic restructuring assistance as well as export credits and investment guarantees. The Swedish Trade office particularly supports feasibility studies of investment projects that promote co-operation at the enterprise level between the Nordic and Egyptian market. The British banks and local Egyptian banks provide loans and guarantees for investment projects, and aims to increase the investments of Nordic enterprises in Egypt according to the interviews.

The Egyptian Investment Minster and The Swedish Diplomat (Swedish Ambassador) discussed bilateral investment cooperation promotion, areas of joint investment in the fields of communications and IT, eco-friendly projects, solid waste
recycling, pharmaceutical industries, wood industries, and building materials. Around 90 Swedish corporations run investments in Egypt, more than 50% of which were founded over the past five years alone. They invest in a number of economic sectors, on top are industry, especially pharmaceutical industries, tourism and financial services, the two sides agreed to initiate an executive program to develop their joint investments and exchange investment missions, as well as developing the contractual framework of bilateral investments. All the above-mentioned measures are examples of finance matching at the global level.

On the question about bureaucracy that can effect Swedish investments in Egypt, the respondent answer that most of Swedish investments are huge investments, such investments find more care from Egyptian government, and they provide a lot of facilities for investors, so bureaucracy is not an obstacle here, it could appear for solely investor with small and medium enterprise.

When asked if Egyptian infrastructure is good enough to facilitate the investment process, the respondent answered yes, the infrastructure quality in Egypt is good comparing with other markets in MEA, and the Government working all the time to enhance infrastructure performance.

When asked if corruption is an obstacle effecting Swedish Investment, the respondent answered that Corruption in Egypt is not organized as some other markets. The market is more regulated here and comparative, the obstacles in Egypt is the customs on foreign exports to protect national industries. The respondent continued that companies in Egypt are family operated “business based on one man show” centralizes many sectors. The owner or a family drives the whole firm, and that is the main shape for most of the business in Egypt. The competitions in these firms are driven by emotions, and the owners can accept huge losses just for compete and control the market as monopoly.

When asked about the role of the law in such cases “monopoly or unfair competitions”, The respondent answered that the main obstacle for foreign investors in Egypt is the legal weakness and contractual enforcement, which can make the foreign investor worry about the future of investment in kind of juridical failure.

The third interview with Dr. Assem Al-Akabawi: AstraZeneca Marketing Company President. Sunday 13 June 25, 2010 between 14:00 and 15:20

On the historical background of AstraZeneca, Dr. Assem answered that between 1970 and 1980 there were an office in Cairo presenting ICI (Imperial Chemical Industries Ltd), AstraZeneca origins based on the corporation between Astra AB, a Swedish pharmaceutical 1913, and ICI which later become Zeneca, 1999 Zeneca Group plc and Astra AB merged to become as AstraZeneca. During the 70th, 80th, and
90th ICI office in Cairo has imported the pharmaceutical production to cover the need in Egypt.

When asked about the respondent experience in pharmaceutical industry. He answered that he has been in charge of Bristol-Myers Squibb for 15 years in Egypt, Kingdom of Saudi Arabia, and Turkey, before he takes charge of AstraZeneca. Dr. Assem adding that 1999 AstraZeneca found themselves outside of the competition in the emerging market of Egypt, that is why they purchased the land of 6th October 2003 and start production 2007. The president takes charge of AZ 2007.

When asked why AstraZeneca choose Egypt to start production, the respondent answered that first reason is the, 81 million populations, for pharmaceutical industry this is interesting figure, and the high volume of Swedish export in pharmaceutical production and raw materials to Egypt. That indicates high demand of the market and the revenues indicators for other multinational industries. Egypt is hub-data and human resource expatriates to most of Middle East countries and especially Gulf Countries, that make starting point or manufacturing is Egypt is good beginning to spread in the MENA.

When asked why AstraZeneca switched from exporting to start manufacturing in Egypt. The respondent answered that the growth rate for pharmaceutical world wide is 7%, 1% in Europe, 2% in USA and 17% in emerging market from it there is 24% from Middle East and North Africa. The market is flourishing for European and American firms, where there is potential profit to make more than at home country, they must move and operate here to survive.

When asked the main advantages in manufacturing in Egypt, the respondent mentioned qualified labor, available market and favorable taxation and government incentives.

First, there is availability of qualified labor in Egypt; even most of pharmaceutical Management positions in Gulf Countries are Egyptians.

Second, there is high demand for AstraZeneca products in Egypt, so the sales are growing.

Third the taxes incentives, we have 0% tax rate for 10 years from the first day of production plus incentives on the land.

When asked if what AstraZeneca exactly do in Egypt, manufacture raw materials or medicines, the respondent answered that AstraZeneca manufacture tablets in Egypt.

When asked if AstraZeneca import raw materials, or export tablets, the respondent answered that AstraZeneca Egypt imports raw materials and that following standards rule for the mother firm and International standards, the production is covering the local demand and there is a problem concerning export.
The pricing of our product is organized under Egypt’s Health Ministry defensive economic policy, which cause lack of profitability for international manufacturers, and create a problem when it come to export our products. The government had a plan to make two prices for pharmaceutical industry in Egypt, one for local market and the other for exporting so the prices can be comparative to the international prices but this plan not applied yet.

AstraZeneca Egypt production can cover many countries in MEA region, but the pricing issue is the main obstacle, and this problem in front of administration courts for many years but no solutions yet. The governmental pricing policy is killing AZ profit say the respondent.

On the issue of obstacles facing AstraZeneca in Egypt, The respondent answered that changing the mindset is the main obstacle in Egypt, the wrong customs and negative behavior of Egyptians are one of the main obstacles in lunching and applying new strategies in Egypt. The respondent means here the pharmaceutical rigid policies, and the bureaucratic policies.

The high cost of building capability and effective generation that is another problem to improve and enhance productivity in general in Egypt.

AstraZeneca has another problem in the market share because the large segment for pharmaceutical production sales in Egypt are oral antibiotics, and AstraZeneca has no shares in this segment, so AstraZeneca has only 13% of market segments.

When asked if the quality of government institution affect AstraZeneca industrial process in Egyptian market, the respondent answered that it is true, if the government institution quality were more developed then AstraZeneca performance were much better in Egypt.

When asked if AstraZeneca have guarantee in terms of intellectual property (IP) protection, the respondent answered yes, the last Cabinet and during the last 5 years has worked comprehensively to guarantee and protect foreign direct investment in term of IP and TRIPs protection.
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