Complexities at the intersection of tobacco control and trade liberalisation: evidence from Southeast Asia

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ABSTRACT
For more than two decades, public health scholars and proponents have demonstrated concern about the negative effects of trade liberalisation on tobacco control policies. However, there is little theoretically-guided, empirical research across time and space that evaluates this relationship. Accordingly, we use one major region that has experienced rapid and significant recent liberalisation, Southeast Asia, and examine key tobacco control-relevant outcomes between 1999 and 2012. While we find a modest increase in regional trade in tobacco products in some countries, the effects on tobacco affordability and consumption are very mixed with no clear link to liberalisation. We argue that widespread penetration of the region by transnational tobacco firms is likely mitigating the effects of trade liberalisation. Notably, tobacco control policies have also generally improved across the region, part of which is likely the result of successful regional and global efforts by civil society, governments and intergovernmental organisations. The results suggest that scholars and public health proponents should move the focus away from narrow economic aspects of liberalisation toward specific issues that are more likely to affect tobacco control, such as intellectual property rights protections and investor-state dispute settlement.

INTRODUCTION
For more than two decades, many public health proponents including WHO Director-General, Margaret Chan, have expressed alarm about the perils of trade liberalisation for tobacco control. 1 – 5 Particularly after the US-forced liberalisation of many East Asian tobacco markets in the 1980s contributed to increased tobacco consumption, the conventional wisdom has rested on the central notions that trade liberalisation naturally leads to lower prices for tobacco products, increased consumption and decreased levels of regulation. Yet, the theoretical discussion and empirical evaluation of these propositions are remarkably sparse. In this research, we seek to help fill these important gaps.

To evaluate the implications of trade commitments and practices for tobacco control, we draw upon the recent experiences of a major region, Southeast Asia. This region is an ideal ‘most likely case’ because (a) it has experienced recent rapid trade liberalisation regionally and multilaterally (eg, World Trade Organization (WTO)) and (b) tobacco control proponents from the region continue to voice loud concern about the issue, suggesting that it is perceived as a genuine threat. The Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) first came into force in 1992 and began to lower barriers to trade in the original six member countries (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand). Shortly after, four more countries joined (Cambodia, Laos, Myanmar and Vietnam). Liberalisation specific to the tobacco sector occurred mostly in the early 2000s. Some prominent public health observers predicted that tobacco would ‘in fact be one of the chief beneficiaries...’ of the AFTA. 6 The concern continues. For example, in mid-2012, health ministers from the ASEAN member countries declared publicly that tobacco should be excluded from the common effective preferential tariff list as ASEAN seeks to integrate even further from a free trade area into an economic community, scheduled for 2015. In essence, an exclusion of tobacco products would mean that the tobacco sector would not be part of the agreement in terms of the contractual reduction of barriers and other obligations in the AFTA. Notably, trade ministers and negotiators did not formally acknowledge the declaration, suggesting that the gap between trade and health practitioners is wide.

THEORY AND APPROACH
There are two principal sets of theories and propositions relevant to this discussion. The first set seeks to explain the more direct economic relationship between trade liberalisation and increased consumption. The second set seeks to examine the links between trade liberalisation and levels of domestic regulation. 7

In order to explain the economic relationship between trade liberalisation and tobacco consumption, it is necessary to consider briefly a progression of connected theories and propositions. To begin, there is a near consensus among economists that trade liberalisation generally leads to an increase in trade. 8 A similar logic applies to regional trade liberalisation: scholars have demonstrated that it often contributes to more trade within the liberalising region, though experts continue to debate how some agreements appear to create genuinely new trade while others appear to divert it away from existing robust non-regional trading relationships. 9 – 10

Theory suggests that increases in trade from economic liberalisation can contribute to lower prices for goods in liberalised sectors. Most obviously, liberalisation is largely about the reduction of barriers to trade including most commonly tariffs, which can help firms to improve efficiencies. For example, cigarette manufacturers might choose to source imported tobacco leaf from a trading partner with which trade barriers are lower compared to previous trading partners, thereby reducing production costs. Sometimes, the efficiencies stemming from lower trade barriers contribute to lower prices...
because producers choose to pass on some of these gains to consumers. Importers of finished manufactured products can also choose to pass on any savings from lower barriers to consumers in the form of lower prices. Reduction in barriers to trade also frequently leads to the introduction of new imported products, thereby increasing competition. Sometimes, to introduce new products, firms market and sell them more cheaply. In a related dynamic, firms can also make existing products more attractive in a competitive marketplace by lowering prices. Finally, the greater variety of goods, new and old, often begets increased marketing as firms seek increased exposure of their products to consumers in order to maintain or grow market share. Lower prices of tobacco products, and in some cases increased marketing, typically lead to greater consumption.

While research on trade liberalisation and tobacco control in East Asia demonstrates that sudden significant tariff reductions in the tobacco sector in the 1980s contributed to lower prices and increases in cigarette consumption, it is crucial to note that these studies were limited to a narrow set of market conditions: all of the cases involved state-owned tobacco monopolies that were forced—primarily by the US—to open up their tobacco markets quickly and vigorously to international competition. Moreover, for a variety of reasons, these monopolies had not been marketing their products aggressively, nor were they keeping prices low. Tobacco control policies were mostly non-existent in these contexts too, so there was no obvious policy-based counter-force to the sudden changes in the tobacco marketplace.

In the last decade, scholars have begun to examine how the components of economic liberalisation—particularly membership in complex international economic agreements—might be affecting governments’ abilities to regulate within their own borders. Preliminary evidence suggests that specific provisions within some types of economic agreements can constrain governments’ abilities to regulate, including in multiple policy areas such as the environment, agriculture and health. Some tobacco control proponents and scholars have argued that economic liberalisation negatively affects tobacco control regulation and there are clear cases in which actors have sought to use international economic agreements to undermine governments’ attempts to regulate tobacco, including the recent Uruguay labelling case in a bilateral investment treaty (BIT) between Uruguay and Switzerland and the plain packaging case involving Australia at the WTO and in another BIT between Australia and Hong Kong. Specific provisions can include the heightened protection of intellectual property, the subjection of public services to commercial rules and large burdens in demonstrating the necessity of a regulation, among other issues.

There is also the possibility that the threat of using such agreements to challenge regulations can ‘chill’ countries’ regulatory efforts. In other words, the mere threat of a country facing opposition to regulate tobacco will dissuade it from pursuing such measures. It is sometimes difficult to identify such incidents definitively because there can be multiple explanations for governments’ policy choices. In 2013, the UK announced that despite intentions to implement plain packaging of tobacco products, the government was not yet convinced of the scientific basis of the measure and might also wish to consider the Australia dispute at the WTO. In the same year, however, Ireland and New Zealand moved forward with plans to develop plain packaging in spite of the uncertainty around the Australia case. It is possible that reluctance to move forward stems from regulatory chill, but it is also possible that there are other explanations; for example, countries could use such ostensible concerns as political cover to pursue alternative policy paths. In the UK, Prime Minister Cameron rhetorically blames legal uncertainty and a lack of scientific evidence, but in a possibly related development, he has publicly defended the work of his party’s chief electoral strategist as a lobbyist for Philip Morris. However, in late November 2013, the government announced the appointment of a prominent doctor to examine plain packaging formally, suggesting that the politics of the possible measure are indeed complex.

While scholars have developed the logic of these propositions about the relationship between trade liberalisation and regulation, they have not yet been tested empirically, particularly in tobacco. However, we do know that countries belong to literally thousands of international economic liberalisation agreements, yet the number of formal cases of regulatory interference or ‘chill’ is relatively small. This dynamic does not suggest that similar dynamics do not occur away from public scrutiny (eg, informal discussions within government or between government and stakeholders) and/or that the cases that we do observe are unimportant; indeed, research particularly in the legal realm suggests that particular cases including in both trade agreements and BITs have had tangible impacts on public health. However, researchers have not yet identified clearly when to anticipate relevant cases or how to determine effectively if and how interference or chill is happening in non-transparent circumstances.

A significant gap in the literature is the dearth of cross-national research on the relationship between trade liberalisation and tobacco control using a reasonably large sample of countries over time, and particularly a sample that demonstrates more varied market conditions than the frequently-cited snapshot of the small sample of Asian countries in the 1980s. The ASEAN countries provide a suitable sample because of variation across many key variables, particularly tobacco product market structures, which include state-owned monopoly, dominant firm (ie, >40% market share of one firm) and the most common, oligopoly. To examine changes over time, and particularly variation before and after liberalisation, we begin our analysis in 1999, 3 or 4 years before most AFTA members liberalised their tobacco sectors, until 2011, the last year with reliable data across most countries.

We examine trade-tobacco relationships in the context of the theoretical constructs introduced above, including changes in trade flows, affordability, consumption and relevant policies. We also add a layer of complexity by introducing the dynamic of tobacco firm ownership and investment, which are likely having an intervening effect on the trade-tobacco control nexus. Because of the vast complexity of these relationships, we elucidate connections among these outcomes and policies, rather than seek to establish precise empirical causality.

**TRADE POLICIES AND FLOWS**

Regional trade liberalisation has been significant in recent years in Southeast Asia, including in the tobacco product sector. Multilateral (eg, WTO) and regional commitments have contributed to marked tariff decreases in most countries. (We use the word ‘contributed’ because countries change tariffs for other reasons, too. In the case of at least Singapore, there has been significant unilateral liberalisation.) Using data from the WTO trade barriers database, table 1 displays WTO Most Favoured Nation (MFN) bound and applied tariff rates, and AFTA applied tariff rates on cigarettes. (In international trade, a country that grants MFN status to another country must grant equal treatment—
such as lower tariffs—to any other country that it designates MFN. Bound rates are the MFN rates agreed upon by the members of a trade agreement, while applied rates are the ones actually levied on the imports. AFTA bound rates on tobacco products are set at 5%. While there remains variation across WTO MFN rates, there is much less variation in ASEAN rates. Considering that pre-2002 tariffs within ASEAN had typically been at WTO MFN rates, and that these rates were previously higher than 2011 rates, the decreases are significant. Singapore and Brunei have completely eliminated extra-AFTA and intran-AFTA tariffs on cigarettes. The Philippines maintains a small 10% MFN tariff and has eliminated AFTA tariffs on cigarettes. Thailand and Vietnam are the only countries with a WHO MFN rate of 60% or greater, though Thailand has eliminated its cigarettes. Thailand and Vietnam are the only countries with a WHO MFN rate of 60% or greater, though Thailand has eliminated its large clove cigarette production. Vietnam’s lack of import penetration reflects its ongoing—previously negotiated—closed trade policies in this sector.

Using data from the Comtrade database, Figure 1 illustrates mainly gradual overall increases in the proportion of intra-ASEAN trade post-regional liberalisation. Before AFTA tobacco sector liberalisation, countries’ cigarette imports were typically from non-ASEAN trade partners. For example, in 1999, Singaporean imports came principally from the US (50%) and the UK (25%). A decade later, nearly half of Singapore’s cigarette imports were from its larger AFTA partners, Indonesia, Malaysia, the Philippines and Vietnam, with almost no imports from the US. In terms of an export example, pre-AFTA Philippine cigarette exports were destined mainly for the US and The Netherlands. After AFTA, exports shifted; by 2011, nearly three-quarters of Philippine exports flowed to Thailand.

The width of the bubbles, however, demonstrates another crucial related dynamic: actual intra-ASEAN trade as measured in actual dollars increased only in some countries. The sole large export increase was in Indonesia, which became a major exporter of tobacco products within the region. Most other countries’ exports increased somewhat, but not a lot in real terms. Singapore’s exports experienced a substantial decrease before returning to pre-AFTA levels, possibly as a result of adjusting to new regional trade flows. These patterns might simply reflect revealed regional comparative advantage in the sector (that is, Indonesia is an efficient tobacco producer). The import story is potentially more complex. There were sizeable increases for four countries (Singapore, Cambodia, Thailand and Malaysia), but little change for the others; a dynamic less easy to explain using trade liberalisation as the main explanation. We examine an important alternative dynamic—investment in the tobacco sector—below, which might help to explain these mixed patterns.

**AFFORDABILITY**

While it is clear that trade liberalisation in ASEAN has contributed to lower trade barriers in the tobacco sector across all members with the exception of Vietnam, an increase in import penetration in some countries and more intraregional trade in tobacco products among some countries in the region, changes in price-related variables are mixed. Because price is a fundamentally problematic measure, we instead consider changes in cigarette affordability. Affordability is a superior measure to

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**Table 1** World Trade Organization (WTO) reported tariffs on cigarettes, 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>2011 applied MFN tariff (2011 bound rate)</th>
<th>AFTA applied tariff</th>
<th>First year with AFTA preference*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>0 (Brunei $132/kg)</td>
<td>0</td>
<td>2010</td>
</tr>
<tr>
<td>Cambodia</td>
<td>7% (40%)</td>
<td>6%</td>
<td>2005</td>
</tr>
<tr>
<td>Indonesia</td>
<td>40% (40%)</td>
<td>0</td>
<td>2002</td>
</tr>
<tr>
<td>Laos</td>
<td>40% (40%)</td>
<td>5%</td>
<td>2008</td>
</tr>
<tr>
<td>Malaysia</td>
<td>RM 0.20/stick (RM 270/kg)</td>
<td>RM 0.08/stick</td>
<td>2003</td>
</tr>
<tr>
<td>Myanmar</td>
<td>30% (330%)</td>
<td>5%</td>
<td>2005</td>
</tr>
<tr>
<td>Philippines</td>
<td>10% (45%)</td>
<td>0</td>
<td>2002</td>
</tr>
<tr>
<td>Singapore</td>
<td>0 (Singapore $115/kg)</td>
<td>0</td>
<td>2002</td>
</tr>
<tr>
<td>Thailand</td>
<td>60% (60%)</td>
<td>0</td>
<td>2002</td>
</tr>
<tr>
<td>Vietnam</td>
<td>140% (135%)</td>
<td>General exception</td>
<td>NA</td>
</tr>
</tbody>
</table>

Data from WTO Tariff Database.

*Most countries phased out tariffs in steps (eg, in 5% per annum increments).

AFTA, The Association of Southeast Asian Nations (ASEAN) Free Trade Area; MFN, most favoured nation; NA, not applicable.

**Table 2** Import penetration,* ASEAN cigarette market, 1999–2011

<table>
<thead>
<tr>
<th>Country</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.4</td>
<td>0.2</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.8</td>
<td>6.1</td>
<td>9.6</td>
<td>10.0</td>
<td>24.1</td>
<td>32.6</td>
<td>37.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.3</td>
<td>6.8</td>
<td>6.3</td>
<td>1.2</td>
<td>0.4</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>900.3</td>
<td>828.0</td>
<td>472.5</td>
<td>613.1</td>
<td>667.9</td>
<td>824.8</td>
<td>873.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>15.1</td>
<td>21.8</td>
<td>19.6</td>
<td>27.6</td>
<td>28.4</td>
<td>28.7</td>
<td>30.9</td>
</tr>
<tr>
<td>Vietnam</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Data from Euromonitor (except Vietnam imports, from ERC).

*Import penetration=imports/(production+imports−exports), expressed as a percentage.

†Singapore demonstrates very high penetration values only because it continues to employ an import/re-export economic model; most imported cigarettes are re-exported.

ASEAN, Association of Southeast Asian Nations; ERC,
nominal prices because it incorporates changes in income and price. For example, even if cigarette prices increase, if average incomes grow more quickly—which has happened recently in much of Southeast Asia and many developing regions—cigarettes become more affordable.46 47 As cigarettes become more affordable, there is typically greater consumption.

Figure 2 presents decidedly mixed results across AFTA countries in terms of changes in cigarette affordability in this era of rapid and significant trade liberalisation. Borrowing the relative income price (RIP) measure developed by Blecher and van Walbeek,46 the figure illustrates the indexed change in affordability (with 1999 as the base year) by tracking changes in the proportion of annual income that the average person (measured by gross domestic product (GDP) per capita48) would require to purchase 100 standard packages of cigarettes of the least expensive available brand, using annual price data from Euromonitor and Economist Intelligence Unit (EIU). At the bottom of the figure, we also present the actual RIP values at the beginning and the end of the time period under examination. We use least expensive brand because we are interested in affordability as a barrier to consumer entry into the market. For example, the measure naturally incorporates any market changes as the result of the introduction of less expensive imported brands after liberalisation as there is evidence of brand switching when a new, less expensive brand enters the market.15

Contrary to the conventional wisdom that would predict that deeper import penetration would make cigarettes more affordable, in the two AFTA countries where import penetration increased most dramatically (Malaysia and Thailand), cigarettes have become less affordable. In the case of Malaysia, proportionally and in real terms, cigarettes are dramatically less affordable: purchasing 100 packages of the least expensive cigarettes in 2011 would require close to 5% of the GDP per capita measure compared to approximately 2% in 1999. Thus, for Malaysians, it was possible to smoke significantly more cheaply in 1999 before any AFTA liberalisation and before the large influx of regional cigarette imports.

In several countries in Southeast Asia, a major reason for the changes in affordability is tobacco excise tax increases. For example, in the early 2000s, the Malaysian government began
to increase specific excise taxes from RM28 per kilogram to
RM220 per 1000 sticks by 2010, a substantial increase. Similarly, Singapore’s excise tax on tobacco products was S$130 per kilogram in 1999, but by 2010, the government had increased it to S$352. Tax rate changes, however, were less dramatic in Indonesia and Thailand, suggesting that other variables also affect affordability, a discussion that is beyond the purview of this study. Notably, in the Philippines and Cambodia, two countries where cigarettes became more affordable in this time period, there were only limited tobacco excise tax increases at this time.

In Vietnam, the least liberalised country in the region, where all tariffs intra-AFTA and extra-AFTA remain high, relative affordability actually declined in the mid-2000s before returning to 1999 levels in 2011. This evidence suggests that having a state-owned tobacco monopoly is far from a guarantee that prices will remain sufficiently high to discourage consumption.

Indonesia is an unusual case because, as a result of a 90% market share for kretek, we expect that imports will have limited effects on its markets. Despite its unusual cigarette market, Indonesia is exporting and importing more regionally, but cigarettes are significantly less affordable in 2011 than in 1999. In contrast, in the Philippines and Cambodia, both countries that experienced major changes in their tobacco markets as a result of regional trade liberalisation, cigarettes have become significantly more affordable. However, in early 2013, a new, dramatically-higher tobacco tax came into effect in the Philippines and the price of cigarettes increased markedly almost immediately. Scholars demonstrate that tobacco taxes have the largest effect on affordability and the evidence here points to trade liberalisation’s very limited role.

CONSUMPTION

Though some previous research suggests that economic liberalisation leads to increased consumption under certain conditions, considering the decidedly complex relationship between trade liberalisation and affordability in the ASEAN countries, it is not clear what to expect in terms of changes in per capita consumption over this time period. As figure 3 illustrates, changes in consumption per capita, too, demonstrate mixed results, though not precisely in the same pattern that we observe with affordability. The most pronounced declines have occurred in Malaysia, Myanmar and Cambodia, while the only clear upward trend is in Indonesia. Again, the most economically-liberalised countries are not showing any clear increases in consumption per capita. Similarly, the more closed cigarette markets are not demonstrating a downward trend either. In fact, the only ASEAN country to demonstrate a strong upward trend in consumption per capita is Vietnam, the only country that continues to have a closed tobacco sector. The evidence suggests strongly that tobacco sector liberalisation is not a significant determinant of changes in cigarette consumption per capita in Southeast Asia.

**Figure 3** Cigarette consumption per capita, 1999–2011.
Table 3 Tobacco control policies in ASEAN countries

<table>
<thead>
<tr>
<th>Country (year of FCTC ratification)</th>
<th>Article 8: smoke-free</th>
<th>Article 11: labelling and packaging</th>
<th>Article 13: TAPS (no. of specific FCTC provisions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia (no FCTC)</td>
<td>Weak: beginning only in 2004</td>
<td>Very weak</td>
<td>Weak</td>
</tr>
<tr>
<td>Myanmar (2004)</td>
<td>2002: weak ban</td>
<td>No</td>
<td>None</td>
</tr>
</tbody>
</table>

Data sources: Articles 8 and 13: FCTC Country Reports; Article 11: Canadian Cancer Society. ASEAN, Association of Southeast Asian Nations; FCTC, Framework Convention on Tobacco Control; TAPS, tobacco advertising, promotion and sponsorship.

the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Recognising that an actual state would need to pursue alleged violations of the TRIPS commitments within the WTO mechanism, Thailand ignored the threat and successfully implemented the new warnings. Notably, a WTO case initiated in 2008 concerning Thailand’s taxation of Philippine cigarette exports was not a health-based challenge or defence and is not appropriate for inclusion in a list of health-focused cases. (A different discussion among WTO members involving labelling of alcohol products in Thailand is a more relevant case, but we include only formal disputes and/or tobacco-related cases.) The crux of the case was Thailand’s accusation that the Philippines exporter was undervaluing its products in order to pay less tax. Thailand, however, would not reveal its own calculation methods, which led the WTO to rule in favour of the Philippines. Some members of civil society groups promoting tobacco control in the Philippines have expressed concern that the case is a violation of FCTC Article 5.3 because tobacco firms in the Philippines, particularly Philip Morris–Fortune Tobacco, might have exerted inappropriate pressure on the Philippine government to pursue the case (interview, 9 April 2013). To date, however, critics have not produced unequivocal evidence of an Article 5.3 violation on the part of the government in this particular case.

Ironically, the oft-cited 1990 trade dispute between Thailand and the US over Thailand’s cigarette import ban, might actually suggest the possibility of reverse causality in certain circumstances. In a formal dispute in the General Agreement on Tariffs and Trade’s Dispute Settlement System, the US successfully demanded that Thailand remove the ban even though Thailand argued that it existed in part to protect public health. Rather than stifle tobacco control, however, the supposed ‘lost’ dispute galvanised public opinion, civil society and a largely indignant government to push through path-breaking tobacco control policy reforms.

ROLE OF FOREIGN INVESTMENT

The overwhelming evidence presented above suggests that the relationship between trade liberalisation and tobacco control is a complex one. In order to identify better how other economic policies and/or dynamics might be affecting tobacco control, we examine a closely-related economic dynamic that is likely acting as a key intervening variable: investment in the tobacco sector by large transnational tobacco companies (TTCs). For more than 20 years, in most Southeast Asian countries and across the world, investment activities in domestic tobacco markets by TTCs have been substantial and increasing. The marketplace is complex and has involved many different types of transactions, including: investment in domestic firms; discrete, new investments in manufacturing; building new relationships with tobacco leaf producers, buyers and/or processors; mergers; joint ventures; and even disinvestment in certain tobacco-related endeavours for a variety of reasons. Table 4 provides the most recent available data on market shares and locations of tobacco manufacturing in ASEAN (Euromonitor and ERC). Undoubtedly, TTCs have been and are well established in these tobacco markets. In all but Vietnam and Thailand, one or more of the TTCs manufactures cigarettes directly. Even in Vietnam, the largest TTCs all have licensing agreements with the state-owned monopoly to manufacture and market major brands. So while it is true that trade liberalisation has shifted the patterns of imports and exports in most ASEAN countries, the major tobacco firms are continuing to manufacture domestically in most countries and this dynamic likely greatly blunts the effects we might reasonably see from liberalisation in the absence of this kind of presence of TTCs. Importantly, this dynamic mirrors widespread penetration by TTCs in other regions, where scholars have demonstrated that investment can have tangible effects on marketing, price and consumption.

These data suggest that TTCs make strategic investments in order to operate effectively in most countries even without open trade, a veritable hedge position. The data in Table 4 strongly suggest that TTCs are making concerted, thorough and ongoing efforts to penetrate almost all of these markets through investment. Euromonitor tobacco reports for countries in the region consistently demonstrate that beginning in the 1990s before ASEAN countries liberalised trade in tobacco products, TTCs sought aggressively to establish domestic manufacturing either through acquisition and/or investment in new facilities, including in Cambodia (BAT), Indonesia (PMI), Malaysia (BAT and PMI) and Laos (the Chinese Tobacco Corporation and later Imperial). Notably, however, investment in the tobacco sector continued at a similar or even quicker pace in the 2000s during and after rapid trade liberalisation. For example, PMI-Philippines opened a new US$300 million cigarette

The TTCs do not make their trade/investment strategies particularly transparent, but the evidence suggests a broader strategy that is a changing combination of investment and trade depending on shifting needs and conditions. In the Philippines and Malaysia, for example, TTCs produce largely for domestic markets, but also export, mostly within the region. This business model undoubtedly provides these firms increased flexibility, and might also enhance profits, though this is difficult to discern definitively since annual reports do not disaggregate by country-level profit sufficiently to evaluate reliably.

DISCUSSION AND CONCLUSIONS

The very mixed results above across key aspects of the trade and tobacco nexus suggest that there is no clear-cut link between trade liberalisation and a decline in tobacco control and/or an increase in tobacco consumption in Southeast Asia. One popular proposed solution to mitigating trade liberalisation’s effects on tobacco control is a total exclusion of tobacco from future economic agreements. While there are some obvious benefits to this proposal, it is not clear that it is politically viable or that it will have particularly large positive effects for public health.

In terms of tobacco exclusion’s political viability, the broader task of affecting trade negotiations successfully is challenging, not to mention the additional burdens of returning to hundreds of previously negotiated economic agreements. In each case, proponents would have to convince the appropriate political actors that a policy of tobacco exclusion is necessary and appropriate. These actors almost surely include governments’ trade officials and negotiators, but probably also legislators and/or other major political actors. Many of these actors will have strong preferences and/or vested interests that preclude supporting such initiatives. Moreover, in a consensus-based context such as ASEAN, such efforts would have to occur successfully across all members. A high-ranking trade official in the Philippines noted that no key trade or financial officials in ASEAN countries are openly supportive of this proposal (interview, 8 April 2013). With literally thousands of products and hundreds of discrete issues up for negotiation in most agreements, prospects for change of this nature are dim.

Tobacco exclusion may even be problematic in some circumstances by perpetuating market structures that serve strong pro-tobacco interests (eg, by preserving the market share of a particularly politically strong TTC). It is no mistake that in two major recent economic agreements, the Pacific Island Countries Trade Agreement (PICTA) and the South Africa–European Union Trade, Development and Cooperation Agreement, it was a major TTC operating in favourable domestic conditions pushing governments for an exclusion policy (personal communication with South African treasury official, 23 April 2013).

If one of the ultimate goals is to affect price positively (and thereby reduce consumption), tobacco excise taxes are typically a superior strategy to trade barriers such as tariffs because they are non-discriminatory, can be made specific to quantity or unit, and can even be designed to account for inflation and income growth. Tariffs as a tobacco control tool may have the perverse consequence of permitting domestic tobacco manufacturers to thrive, while having limited or no effect on price, affordability and/or consumption. While it is true that decreased competition generally leads to higher prices, it remains the prerogative of the domestic industry to set prices to optimise their goals. For example, a protected domestic firm or industry might set certain products at lower prices to encourage initiation of use and then raise prices only after solidifying its consumer base through the products’ profoundly addictive nature.

Similarly, if one of tobacco control proponents’ ultimate goals is to counteract aggressive marketing by the tobacco industry, it might be more prudent to pursue FCTC-compliant bans on tobacco advertising, promotion and sponsorship. These bans do not discriminate between domestic and foreign products, but rather, address all tobacco products and thereby prevent domestic firms from taking advantage of a potentially privileged status in a domestic market. However, such bans might preserve market shares forcing firms to compete more aggressively on price.

Without doubt, there remain enormous challenges at the economic policy–tobacco control nexus: the extant case study evidence cited above suggests strongly that there are very serious challenges to public health. But the public health community must identify better the precise causal mechanisms, and develop some viable and sophisticated solutions. Simply arguing the trade liberalisation is bad for tobacco control and that excluding the tobacco sector from economic agreements is the solution is a suboptimal strategy in terms of how it addresses the challenges and its likelihood for effective implementation. As all ASEAN

### Table 4: Principal cigarette market share and domestic manufacturing in AFTA, 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Firm tobacco market share and manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>BAT* (originally a joint venture with the state-owned tobacco company, 37%); Viniton* (29%); Paradise Tobacco (Imperial, 23%)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>PMI/Sampoerna* (approximately 26% market share); Gudang Garam* (domestic, 28%); Djmur* (13%); BAT/Bentoeil* (10%)</td>
</tr>
<tr>
<td>Laos</td>
<td>Joint venture between Imperial Tobacco* and the Lao Government (89%); Thai Tobacco Monopoly (7.8%)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>BAT* (approximately 60%); JTI* (20%); PMI* (13%)</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Rothsman of Pali Mall Myanmar* (RPM, 37%); under political pressure, BAT sold its 60% share in RPM in 2003 to a Singapore holding company; Myanmar Sampoerna* (acquired by PMI in 2005, 31%); State-owned company* (27%)</td>
</tr>
<tr>
<td>Philippines</td>
<td>PMI* is in a joint venture with Fortune Tobacco Company (PMFTC) (86%); JTI (6%)</td>
</tr>
<tr>
<td>Singapore</td>
<td>PMI (49%); BAT* (31%); JTI (20%). Due to open economy, it is also a major import/export hub for many global and regional tobacco companies.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Thai Tobacco Monopoly* (approximately 75%); PMI (22%)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Government-owned monopoly, Vinataba* (98%); all the major TTCs have or have had licensing arrangements with Vinataba to produce and sell their brands</td>
</tr>
</tbody>
</table>

Data from Euromonitor and ERC.

*Connotes significant manufacturing in the country.

AFTA, The Association of Southeast Asian Nations (ASEAN) Free Trade Area; ERC, ; TTC, transnational tobacco companies.
countries negotiate the evolving Regional Comprehensive Economic Partnership with regional neighbours (Australia, China, India, Japan, Korea and New Zealand) and some ASEAN members consider their membership in the even more comprehensive Trans-Pacific Partnership (TPP), the impetus to find the most feasible and effective balance among health and economic commitments could not be larger. Public health proponents’ concern about the TPP appears founded as even a US Trade Representative proposal to include a safe harbour for tobacco control regulations is reportedly no longer under consideration (as of late 2013).

Instead, the public health community must target efforts toward the largest, most pressing and potentially problematic substantive problems. For example, the Uruguay labelling and Australia plain packaging challenges demonstrate clearly that investor–state dispute settlement provisions in BITs pose genuine risks to tobacco control, not least of which because wealthy TTCs have the opportunity to bully small or even larger countries in the unpredictable setting of international arbitration. Similarly, the public health community must push negotiators firmly and unequivocally not to privilege the protection of intellectual property rights over governments’ moral and legal obligations to regulate for the broader public health. Economic agreements are not likely going away any time in the near or medium term, so the public health community needs to be better prepared to make appropriate and effective requests and demands.

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