



Tobacco Products and Socioeconomic Development Setbacks: Policy Advice for Laos PDR

Meung Chansomanita & Ung Khemara Bormeychan

Executive Summary

- According to the calculation made by UNDP & WHO Laos, the economic impact of tobacco consumption in the Lao economy in 2017 amounted to around 3.6 trillion Lao Kip, which is comparable to 2.3% of its Gross Domestic Product (GDP).
- According to the most recent Lao National Adult Tobacco Survey (NATS) in 2015, the results showed that 32.4% of Lao people younger than 15 used tobaccos (51.2% of men and 15.4% of women).
- Taxation on tobacco should meet the minimum requirement set by the WHO to ensure the socioeconomic and public health for the citizens. By raising prices while making tobacco products less affordable, creates the possibility to reduce the prevalence of smoking and prevent deaths and other socioeconomic setbacks.
- The Government of Laos also needs to pay attention to the compliance to the rules and regulation set by the international agencies to limit the visibility of the tobacco product regulations. For example, the Laotian government should demand 75% of cigarette packs to have health risk pictures and health warnings.

Introduction

Every year on the 31st of May, the member states of the World Health Organization (WHO) commemorate “World No Tobacco Day” with the aim of raising worldwide awareness about the tobacco epidemic and the avoidable consequences to human health and socio-economic development. According to WHO, more than 8 million people per year are killed by tobacco,

including 1.3 million secondhand smokers (WHO, 2023).¹ Back to the early COVID-19 pandemic, researchers studied the vulnerability of the smokers to COVID-19 infection, and found out that the smokers have up to 50% more chances of resulting in death and severe diseases than non-smokers.² While the consumption of tobacco has been on a downward trend in higher-income nations, it is witnessing an increase in other regions. Approximately 80% of the global population of one billion smokers currently resides in countries classified as low-income, with this proportion showing a persistent upward trend.³

Why almost everyone can buy tobacco products in Laos

Laos is a mountainous country with abundant resources whose economy relies on agriculture. Tobacco used to be the third largest agricultural produce. Tobacco plantations are spread extensively throughout this landlocked nation. Around 6700 tobacco users die annually, or more than 17 people each day, and it constitutes almost 15% of the total mortality rate inside the nation.⁴ This number is approximately ten times greater than the deaths caused by road accidents annually, according to the WHO in Laos.⁵ A 50-year study shows that between half and two-thirds of people who smoke cigarettes their whole lives will die from three major diseases: lung cancer, chronic obstructive pulmonary disease, or coronary heart disease.⁶

Furthermore, tobacco use can reduce productivity by permanently or temporarily removing individuals from the labor market due to poor health caused by the direct or indirect consumption of tobacco. In addition, people with poor health are more likely to miss days of work (absenteeism) or to work at a reduced capacity while at work (presenteeism).⁷ However, according to the most recent Lao National Adult Tobacco Survey (NATS) in 2015, the results showed that 32.4% of Lao people younger than 15 used tobacco (51.2% of men and 15.4% of women). About 95% of all tobacco use among men came from smoking cigarettes, while 60% of all tobacco use among

¹ WHO. 31 July 2023. "Tobacco: Key Facts". Available at: <https://www.who.int/news-room/fact-sheets/detail/tobacco>

² Umnuaypornlert, Adinat et al. 04 February 2021. "Smoking and risk of negative outcomes among COVID-19 patients: A systematic review and meta-analysis." Tobacco induced diseases vol. 19 09. Available at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7857247/>

³ Gilmore, Anna B., Gary Fooks, Jeffrey Drope, Stella Aguinaga Bialous, and Rachel Rose Jackson. "Exposing and Addressing Tobacco Industry Conduct in Low-Income and Middle-Income Countries." *The Lancet* 385, no. 9972 (March 14, 2015): 1029–43. Available at: [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(15\)60312-9/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(15)60312-9/fulltext)

⁴Phuong, Catherine & Lo, Ying-Ru . 30 May, 2023. "Tobacco taxation: A lifesaver and a proven source of finance for development". UNDP. Available at: <https://www.undp.org/laopdr/blog/tobacco-taxation-lifesaver-and-proven-source-finance-development>

⁵ WHO. "Health Experts: Tobacco Use Costing 3.6 Trillion Kip, 6,800 Lives Each Year in Lao PDR." Accessed September 2023, ber 19, 2023. Available at: <https://www.who.int/laos/news/detail/17-11-2022-health-experts--tobacco-use-costing-3.6-trillion-kip--6-800-lives-each-year-in-lao-pdr>

⁶ ASH. "The Economics of Tobacco." ASH. Accessed September 19, 2023. Available at: <https://ash.org.uk/resources/view/the-economics-of-tobacco>

⁷ Ibid.

women came from chewing tobacco. There was a strong link between current smoking and being older and having less education.⁸ This tendency to use tobacco products has several root causes such as the following.

Tobacco cultivation has been spotted in several regions of Khammouane, Bolikhamxay, and Savannakhet provinces, owing to the engagement of numerous farmers by cigarette companies to cultivate tobacco for the purpose of cigarette production.⁹ According to the Global Tobacco Index, in 2001, the government of Laos established a partnership with the Imperial Tobacco Group, which is a UK-based company, to create the Lao Tobacco Ltd (LTL).¹⁰ This joint public-private venture resulted in a 25-year deal that was designed to favor the tobacco industry, which puts a limit on how much the tax on tobacco can go up and gives benefits to the biggest company in the cigarette business. The government has not only been losing tax revenues for the past 22 years, but also has to deal with the unnecessary social issues that derived from addiction, diseases, deaths, and healthcare costs of tobacco use, which were not the intended impact the government wanted to see when creating this venture. Lao-China Hongta Good Luck Tobacco Co.Ltd., which is 100% owned by Chinese investors and used to be called Lao-Chinese Lucky Tobacco Company, has the second biggest market share after LTL and gets incentives similar to the LTL, even though it is not part of the contract.¹¹ This showcased a state-based practice that incentivized the production of a deadly product.

The visibility of tobacco products is also one of the factors that leads to more consumption. In the WHO Framework Convention on Tobacco Control (FCTC), all forms of tobacco advertising, promotion, and funding (TAPS) must be banned, in order to stop people from starting to smoke or starting to smoke more. Laos, as a member of the above framework demonstrated her own commitment to comply with the framework. However, it is important to note that there exists a specific exemption within this restriction, which permits the display of cigarette advertising on outdoor umbrellas and the showcasing of tobacco goods at points of sale.

⁸ Xangsayarath, Phonepadith et al. 30 Sep. 2019, "Tobacco use in Lao People's Democratic Republic: Results from the 2015 National Adult Tobacco Survey." Tobacco prevention & cessation vol. 5 31. Available at:

<http://www.tobaccopreventioncessation.com/pdf-112248-42467?filename=Tobacco%20use%20in%20Lao.pdf>

⁹ Phoydouangsy, Saysamone, Piya Wongpit, and Xaignasack Lassachack. "LIVELIHOOD IN TOBACCO FARMING AND CIGARETTE CONSUMPTION IN LAO PDR," n.d. Available at:

<https://seatca.org/dmdocuments/Livelihood%20in%20Tobacco%20Farming%20and%20Cigarette%20Consumption%20in%20Lao%20PDR.pdf>

¹⁰ Global Tobacco Index. 2021."Global Tobacco Industry Interference Index 2021:Lao PDR". Available at:

<https://globaltobaccoindex.org/country/LA>

¹¹ STOP. "China National Tobacco Corporation's Global Expansion." Accessed September 19, 2023. Available at :

<https://exposetobacco.org/resource/china-national-tobacco-corporation/>

A Call for higher tax on tobacco products in Laos

Drawing the implications from basic economic theory, the relationship between price and cigarette consumption is negative, according to the law of demand.¹² This means that as the price of cigarettes increases, the demand for cigarettes decreases. Price increases can be an effective way to reduce cigarette consumption. Tobacco tax increases are predicted to raise tobacco product prices, make tobacco products more costly, and discourage cigarette usage. However, by making tobacco products more cheap, income growth can counterbalance the effect of tax and price increases on consumption. Thus, for taxing tobacco to be a successful tobacco control policy, the effect of a tax-induced price rise on lowering cigarette usage must outweigh the effect of rising incomes on increasing tobacco consumption.¹³

The term "sin tax" is often used interchangeably with "public health tax," as it is common for governments to allocate the revenue earned from such taxes towards covering expenses related to the treatment of health-related problems arising from the consumption or engagement in activities that are considered detrimental to individuals' physical or mental well-being. Looking deeper into the taxation policy, the tax levied on tobacco products in Laos is one of the lowest in ASEAN¹⁴. It stood at 18.8% per pack, far lower than the WHO recommended tax of 75% per pack. The total tax rate on cigarettes is 18.8% of the retail price, while the WHO suggests at least 75%.¹⁵ Laos PDR has a lot of room to raise its tax rates to 75% of the retail price, producing much-needed revenue for those items that actually matter.

Recommendation

1. Changes to the taxation policy on tobacco products

While it is true that foreign investment and trade may contribute to economic growth by fostering more manufacturing, employment opportunities, and overall economic strength, it is important to acknowledge that not all commercial transactions yield favorable outcomes for both the populace and the government. Upon conducting a more comprehensive examination of the 25-year agreement with Imperial, it has been shown that the Lao population has incurred net losses. According to the calculation made by UNDP & WHO Laos, the economic impact of tobacco consumption in the Lao economy in 2017 amounted to around 3.6 trillion Lao Kip, which is comparable to 2.3% of its Gross Domestic Product (GDP).¹⁶ Therefore, the tax exemption on

¹² Nargis, Nigar et al. 2021. "Price, Income, and Affordability as the Determinants of Tobacco Consumption: A Practitioner's Guide to Tobacco Taxation." *Nicotine & tobacco research: official journal of the Society for Research on Nicotine and Tobacco* vol. 23,1 (2021): 40-47. Available at:

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7789936/>

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

tobacco in Laos should be increased. The VAT on cigarettes, by raising prices while rendering cigarettes less affordable, has the possibility to reduce the prevalence of smoking and prevent premature deaths. This policy is consistent with global efforts to reduce smoking and enhance outcomes for public health. Tobacco taxation is a tried-and-true method of effectively mitigating the effects of these harmful products while also generating significant revenue for the government.

In order to further explain this call for higher taxation on tobacco, this section will explore the case of Cambodia and Singapore.

Cambodia

In the case of Cambodia, the Cambodian government has imposed a value-added tax (VAT) on cigarettes. Companies that import and distribute cigarettes in Cambodia must apply a flat rate of 10% VAT on all cigarette offers beginning August 1.¹⁷ According to a WHO report, adding a KHR500 (\$0.125) tax per pack of tobacco products could result in a 15% increase in market rates. This price increase has the potential to reduce the overall number of smokers by 30,000 in the coming year. In addition, it has the potential to save over 50,000 lives over the next decade.¹⁸ The initiatives of the Cambodian government are certain to have a positive impact on the country's general well-being and health. Also the Cambodian government shows their commitment to contribute to the WHO to reduce the number of people smoking to decrease the number of deaths within the nation.

Singapore

Considering the most developed nation in Southeast Asia, Singapore is also one of nations that has the third most prevalent tobacco burden in the region, with a tobacco tax of 67.50% of retail prices.¹⁹ Singapore always has an ongoing adjustment procedure for periodic tobacco tax evaluation, which aims to decrease the incidence of smoking, and tobacco-related goods do not get cheaper over time. Therefore, cigarettes in Singapore are taxed at a rate of SGD 0.427/stick; tobacco products are also subject to a 7% Goods and Services Tax (GST). In Singapore, the tax rate is substantial enough to make tobacco products unaffordable. Based on the microeconomic concept, the price elasticity of tobacco in high-income countries is around -0.4 which means that for every 10 percent price increase, demand goes down by 4 percent.²⁰ Therefore, this indicates

¹⁷ “Cambodia to Implement Tobacco VAT.” 2023. August 1, 2023.

<https://tobaccoreporter.com/2023/08/01/cambodia-to-implement-tobacco-vat/#>

¹⁸ “Benefits of Tobacco Control for Lower-Income Cambodians | United Nations Development Programme.” n.d. UNDP. <https://www.undp.org/cambodia/publications/benefits-tobacco-control-lower-income-cambodians>.

¹⁹ SEATCA TOBACCO TAX PROGRAM. 2023. “Singapore - SEATCA TOBACCO TAX PROGRAM.” January 19, 2023. <https://tobaccotax.seatca.org/singapore/>.

²⁰ Blecher, Evan. 2018. “Tobacco Taxes & Government Revenues.” *Economic Research Informing Tobacco Control Policy*. https://tobacconomics.org/files/research/470/Laffer-Curve-Policy-Brief_v2.2.pdf.

the strong and effectiveness of Singapore’s policy in terms of taxation on tobacco products, which align strongly with the procedures of the WHO.

2. Compliance to the rules and regulation on tobacco consumption

The development of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) was a direct response to the global spread of the tobacco epidemic, which occurred during the 20th century. The Convention is a convention grounded in empirical facts that reasserts the entitlement of all individuals to rights of a healthy life. The WHO Framework Convention on Tobacco Control was ratified by the Lao Government on September 6, 2006²¹. Subsequently, the nation has implemented internal regulations, exemplified by the National Tobacco Control Law, which has vested government entities with the authority to oversee, supervise, and scrutinize the manufacturing, importation, dissemination, and commercialization of tobacco commodities, as well as to designate zones where smoking is prohibited. Therefore, the nation must abide by this framework more strictly by eliminating joint venture with tobacco company.

In 2009, when the Lao government was trying to propose laws to stop people from smoking, the industry got policymakers to change their minds about a parliamentary vote on tobacco control law amendment to coming up with another new regulation that demand 75% of all cigarette packs to attach pictures of health risks on cigarette packs with health warnings on them. However, the LTL did not follow the rules.²² Lao PDR with other 30 nations showed the willingness to ban the sale of e-cigarettes and associated goods in 2021. This is a progressive step, however more monitoring bodies should be in place to ensure that it is genuinely under the monitor.

Conclusion

Addressing tobacco consumption globally is a key focus under the 2030 Agenda for Sustainable Development. The relevance of tobacco control extends to the attainment of several Sustainable Development Goals (SDGs), with special emphasis on SDG 3.4. This goal specifically urges concerted efforts to reduce premature mortality caused by non-communicable diseases (NCDs) by one-third by the year 2030.²³

²¹ “Tobacco Brings Loss and Poverty to Lao People – SEATCA.” Accessed September 19, 2023. Available at : <https://seatca.org/tobacco-brings-loss-and-poverty-to-lao-people/>

²² López, Leticia Martínez. “Lao People’s Democratic Republic: Tobacco Control Law Amended,” February 7, 2022. Available: <https://untobaccocontrol.org/impldb/greater-protection-of-public-health-in-lao-peoples-democratic-republic/>

²³ World Health Organization. Regional Office for Europe. (2019). “Tobacco control: fact sheet on Sustainable Development Goals (SDGs): health targets.” World Health Organization. Regional Office for Europe. Available at: <https://iris.who.int/handle/10665/340898>

In the context of taxation policy implementation, the practices from Cambodia and Singapore could indicate the effectiveness and potential of tax policy on tobacco supplies that may decrease the demand of people from smoking, and result in preventing the rate of deaths of smoking as well. Therefore, the governments of Laos should work on enhancing and reviewing its taxation policy to ensure that it is effective enough to discourage people from smoking or find it challenging to afford for consumption.

Meung Chansomanita is a Junior Research Fellow at the Center for Southeast Asian Studies and a Lecturer at the Institute for International Studies and Public Policy, Royal University of Phnom Penh.

Ung Khemara Borameychan is an intern at the Center for Southeast Asian Studies (CSEAS) and a sophomore in the Department of International Relations (DIR), Institute for International Studies and Public Policy (IISPP), Royal University of Phnom Penh (RUPP).

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