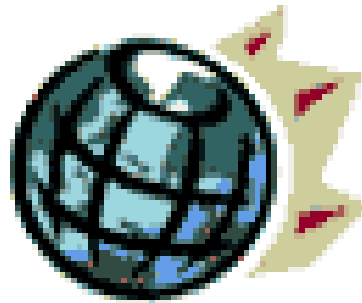


TOBACCO GLOBALIZATION , TRADE LIBERALIZATION and HEALTH CARE



TRADE &
GLOBALIZATION

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GLOBALIZATION OF TOBACCO INDUSTRY

The tobacco epidemic has reached its peak in highly industrialized countries and is now escalating in less developed ones. The main cause is undoubtedly the tobacco globalization.

The tobacco market has been progressively shrinking in the west but has continuously grown in the third world at an alarming rate. In North America cigarette sales fell by 4.5 percent between 1990 and 1995 but they increased by 5.6 percent in Eastern Europe and 8 percent in the Asia-Pacific region.¹ WHO predicted that by the turn of the century, per capita consumption in developing countries will be greater than that of developed countries.

Philip Morris (PM) and R.J. Reynolds (RJR), the two leading U.S. companies, sell nearly two-thirds of their cigarettes in foreign markets, and earn nearly half of their profits overseas.

In the 1990s the transnational tobacco companies (TTCs) capitalised on the market opening of the former socialist economies (FSE) of Eastern Europe and invested an estimated \$2 billion in the region. The TTCs now own all the cigarette plants in Kazakhstan, the Baltic Republics, Slovakia, Hungary, and Czech Republic, Hungary, as well as some of the biggest in Russia, Ukraine, and Poland.² Russia is the fourth largest cigarette market in the world, and one of the fastest-growing. Two-thirds of Russian men and almost one-third of Russian women smoke, consuming close to 300 billion cigarettes a year. This lucrative market has attracted the TTCs, who now produce 70 percent of the cigarettes consumed in Russia.³ Asia is a big green turf of the transnationals. The Chinese market is the world's biggest. One third of cigarettes smoked in the world today is consumed in China, with 320 million people consuming an estimated 1.7 trillion cigarettes annually.⁴

The global expansion have been possible by several factors and means. Many countries, including the FSE, voluntarily open up their countries to acquire jobs and foreign investment, with provision of cheap land, labor and transport, tax exemption, and lifting of import duties. In several countries of Asia the TTCs' governments used political and economic clout to pry open the closed markets. Few governments were guided by

international financial institutions to privatize state owned industries and relax laws restricting foreign investment. The TTCs themselves are eager to get away from the prospect of stricter regulation at home and try to shield an increasing proportion of their assets from litigation. They want to locate factories near sources of tobacco leaf which is being increasingly purchased overseas.

THE CLOSED MARKETS

In the early 90s about half of the world's cigarettes are sold in closed markets which were maintained by many countries to preserve scarce consumer capital for a nonessential foreign imports. The governments protect their monopolies from foreign competition by outright bans or setting quotas on foreign imports, high tariffs, and tight restrictions on advertising and distribution of foreign brands. Because of lack of competition a typical closed market usually has little or no advertising or promotion, unflavored, harsh, hard-to-smoke cigarettes, a limited number of retail outlets, and high price .

The TTCs break into a closed market by weakening a government's determination to maintain a closed market by executing smuggling, supporting local politicians and officials, transferring technology and financial assistance to the monopoly, and applying trade threats.

TRADE LIBERALIZATION

THE POLITICAL ECONOMY

In the U.K.the former prime minister Margaret Thatcher became a consultant to Philip Morris with responsibilities of resisting the proposed European Community (EC) ban on tobacco advertising; securing new markets in eastern Europe, as well as in developing countries such as South Africa, Vietnam, and Russia; dealing with restrictions on foreign ownership of tobacco companies in Malaysia, Indonesia and government smoking control programs in Singapore.⁵ In the U.S., along with their considerable economic and political power, until recently the cigarette companies have been able to rely on the full support of the U.S. government to help them peddle their products in the rest of the world.

They opened up lucrative markets in Asia by having the U.S. Cigarette Export Association (USCEA) to petition the Office of the U.S. Trade Representatives (USTR) to use Section 301 of the 1974 Trade Act to invoke retaliatory sanctions against countries that discriminate against U.S. imports. In September 1985, President Reagan petitioned the USTR to use Section 301 against Japan. In October 1986 Japan capitulated. In November 1986 Taiwan, threatened with U.S. sanction through Section 301 agreed to open its market to foreign cigarettes. In January 1998, the USCEA requested a Section 301 against South Korea. In May Seoul yielded..

They acted on Thailand in 1989 but Thai officials and advocates fight hard, gaining widespread support from various groups from within the country, the region, the U.S. and international arena. The USTR, realizing that American prestige was in jeopardy, gave up the 301 process and sent the case to GATT. In 1990 GATT's resolution concluded that Thailand could not close the market since it violated international agreement but because of concern for its people's health Thailand could maintain cigarette advertising prohibition, raise the tax, require ingredient disclosure, and control the sale as long as the measures are indiscriminately applied to domestic and foreign cigarettes.

In 1992, after the U.S. threats to use Section 301, China signed in a Memorandum of Understanding with the U.S. requiring it to lift all import licensing requirements for cigarette, cigars, tobacco and cigarette filters within two years and to remove "scientifically unjustified health standards related to tobacco". China has yet to honor this agreement, and the U.S. government has so far not pressed the matter. The US has not dared to use Section 301 again after the Thailand case.

REGIONAL TRADE

NAFTA

Establishment of the North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States in 1994 resulted in a sharp rise in the investment of the TTCs in Mexico. Under AFTA US tax on Mexican exports are reduced and Mexico would export much more products to the US and Canada.⁶ Mexico's two cigarette companies were bought by PM and BAT at a high cost of \$2.1 billion in July 1997. This would

drastically change the tobacco industry in Mexico and have serious implications for the Mexicans' health as well as tobacco control efforts in the U.S. It was believed that the purchases may be part of TTCs' plan to flood the U.S. and Canada with contraband cigarettes if taxes rise sharply.⁷

AFTA

ASEAN (The Association of South East Asian Nations), originally composed of 5 countries, i.e. Thailand, Indonesia, the Philippines, Singapore, and Malaysia, and later joined by Brunei Darussalam, Vietnam, Laos, Myanmar, and Cambodia. In January 1992 ASEAN Free Trade Area (AFTA) was established. The member states signed the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for AFTA. According to this the countries of ASEAN would reduce intra-regional tariffs on all manufactured items including capital goods and processed agricultural products. The CEPT is the mechanism by which tariffs on goods traded within the ASEAN region, which meet a 40% ASEAN content requirement, will be reduced to 0-5% by the year 2003.

The TTCs had established their production bases in Singapore, Philippines, Indonesia, and Malaysia long time ago before the birth of AFTA but recently set up factories in Myanmar, Cambodia and Vietnam to flood the region. Because of the CEPT mechanism they would enjoy a very low import tax and therefore set a low retail price so that their market share could be raised easily. Thailand used to set an import tax at 30% of the c.i.f price and has to lower the tariff drastically. In the first 5 years after entry of foreign cigarettes the imported products could capture only 3% of the market. This rose to 6 and to 9% during 1998 and 1999.

INTERNATIONAL TRADE and FINANCE

THE WORLD TRADE ORGANIZATION (WTO)

It has been obvious that governments which maintain closed markets are pressured by the TTCs' home governments to relax the rules in exchange of getting a support for membership of WTO. Accession to WTO requires an unanimous vote of all 134 members, but the U.S. –the WTO's most influential member—and China have not been

seeing eye-to-eye. In 1994, the Chinese government increased taxes on foreign tobacco and cigarette imports, resulting in two-fold increase in their retail price. The TTCs were not happy with the steep tax rise and other government regulations restricting foreign tobacco investment. They lobbied their governments to condition China's entry into the WTO on the opening up of its market. This resulted in a report in August 1997 that China would cut tobacco import tax as part of its bid to be admitted to the WTO.

Taiwan passed Alcohol and Tobacco Law in June 1999 to lay the groundwork for the eventual end to the government's monopoly. It would become effective when Taiwan is admitted to the WTO.⁸

MULTILATERAL AGREEMENT ON INVESTMENT (MAI)

Another threat to the ability of countries to regulate tobacco is the proposed MAI. This "stealth treaty", a draft of which was leaked in 1997, paints a chilling picture. Although reportedly being in a moribund state but if adopted, the MAI could be a great boost for tobacco globalization. A country's regulations concerning cigarette imports, advertising and ingredient disclosure, for example, would again be considered unfair trade barriers, as they did in the 1980s. Worse even, the MAI would require governments to treat the transnationals as favorably as their domestic cigarette manufacturers. Private investors would have to be given the same legal standing as governments to seek to enforce the terms of the Agreement.

THE INTERNATIONAL MONETARY FUND (IMF) and WORLD BANK

Up until recently, India's cigarette sector, like much of the rest of its economy, remained relatively closed to the presence of foreign multinationals. In the early 1990s however, under pressure from the World Bank and the International Monetary Fund, India began to open up its economy to foreign investment.

Following the 1997 economic meltdown in Asia both Thailand and South Korea had to seek huge financial bail out from the IMF. Privatization of government-owned state enterprises, including the tobacco monopolies, was one of the conditions set by the IMF. Privatization of the state tobacco monopolies is really a 'denationalization' of tobacco independence. The takeover by TTCs would lead to catastrophic health consequences.

HEALTH CARE

Tobacco globalization is the main cause of the world's tobacco epidemic and a major threat to global health care.

Cigarette consumption rates in developing countries rose 60 percent between 1972 and 1992, according to the 1998 Human development Report published by the UNDP.⁹ Approximately 1.1 billion people 15 and older now smoke. Seventy-two percent of those smokers live in developing countries, a rate expected to rise to 85 percent by the year 2025. By 2025, the world death due to tobacco will increase from the current 4 million to 10 million. Tobacco related death and disability will rise from 3 percent to 9 percent of the global total. A majority of these deaths will occur in the Third World and FSE. Given these projections, more than 100 million people will die from tobacco-related illness over the next 30 years.

In the FSE, in 1990, around 14% of all deaths were due to tobacco. This would increase to 22% in 2020. In this region, smoking is likely to be the major factor underlying the 56% projected increase in male deaths from chronic disease between 1990 and 2020. The FSE region is projected in 2020 to have the highest adult male risk of death, even higher than in sub-Saharan Africa.¹⁰ Middle-aged men in Eastern Europe are twice likely to die from a T-related death as middle-aged men in the West. About 28 per cent of women in former communist countries smoke as compared with 23 per cent in the West. However, it is young people who are affected most. According to WHO smoking rates among adolescents in FSE are increasing rapidly especially among girls.¹¹

The cost of direct health care in high income countries have been measured with accuracy but there have been fragmentary data from low income nations. In 1994 total medical cost in the U.S.A. was US\$50,000 millions.¹² The latest research result from India revealed a total health care cost of major 3 diseases caused by tobacco (cancer, CHD, COLD) of US\$6.5 billions.¹³

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