



Southeast Asia Tobacco Control Alliance

# **The Economic Integration and its threat to tobacco taxation: the case of ASEAN Economic Community (AEC)**

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# Outline

- Background information
  - ASEAN Economic Community (AEC)
  - Tobacco control situation in ASEAN
- Potential Impact of AEC
- Policy Recommendations

# ASEAN Community (AC)



# **What is the goal of AEC?**

**“Single market and production base  
with free flow of goods, services,  
investments, capital and skilled  
labour”**



# Key Characters of AEC

- a) a single market and production base
- b) a highly competitive economic region
- c) a region of equitable economic development, and
- d) a region fully integrated into the global economy

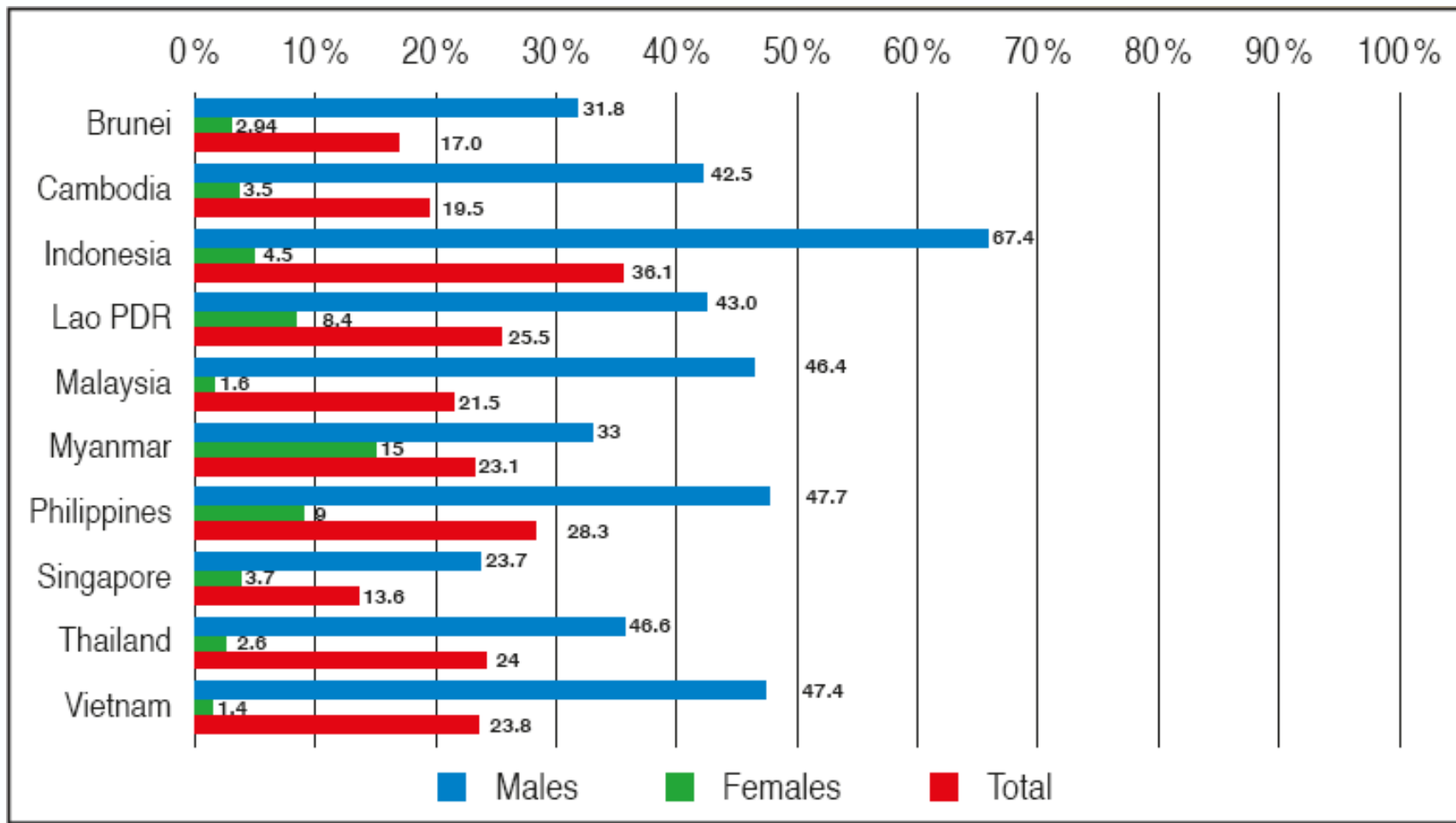
# The priority integration sectors

- Agro based Products
- Air Travel
- Automotives
- E-ASEAN
- Electronics
- Fisheries
- Healthcare
- Rubber based Products
- Textiles and Apparels
- Tourism
- Wood Based Products
- Logistics

# Mechanisms to systematically integrate sectors

- Tariff elimination and reduction
- Harmonization of standards / licensing
- Customs and trade regulations facilitation
- Investment and service liberalization
- Trade facilitation
- More business – friendly environment

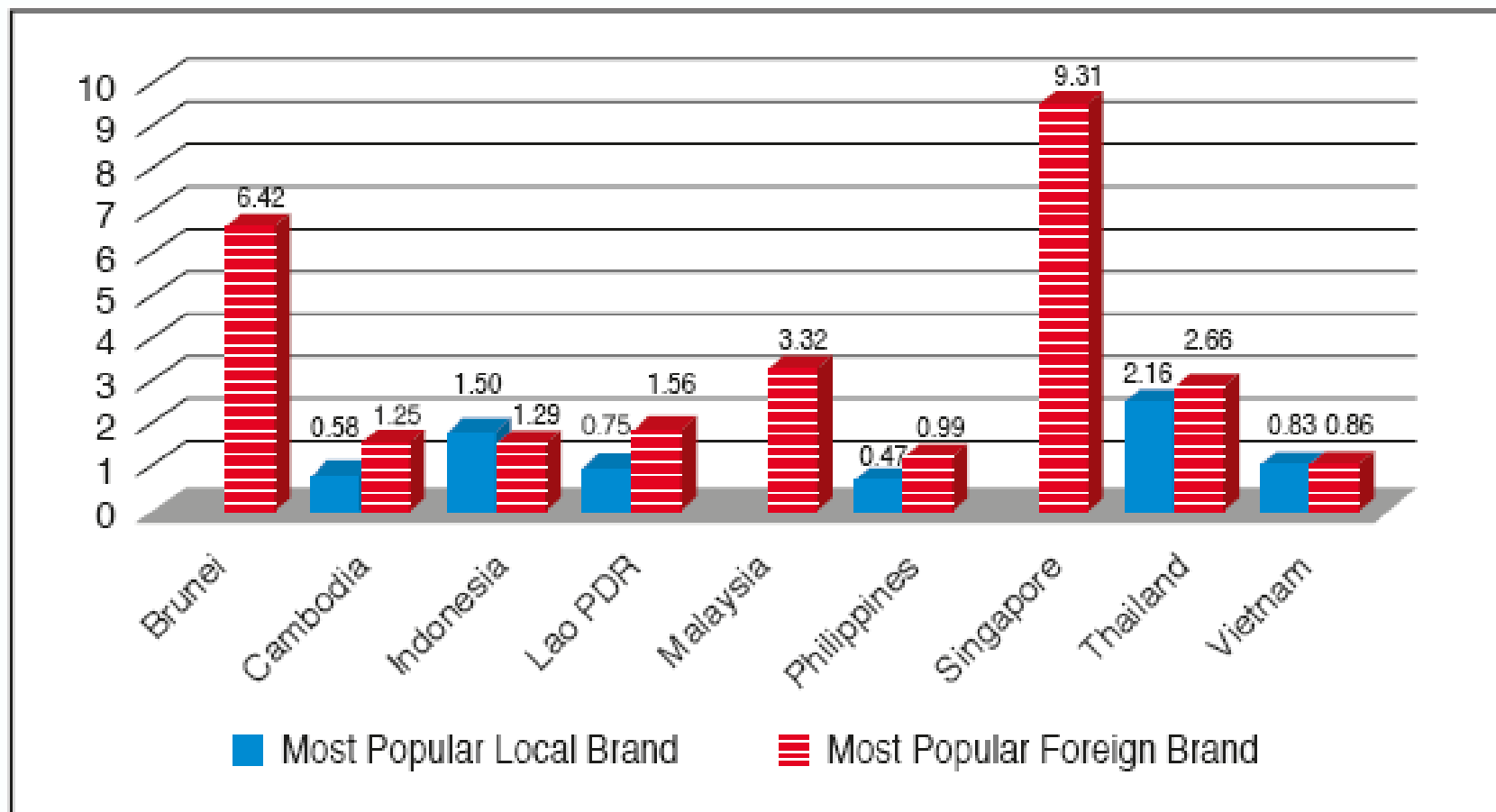
# Current smoking prevalence in ASEAN countries



Source: SEATCA ASEAN Tobacco Tax Report Card, May, 2013



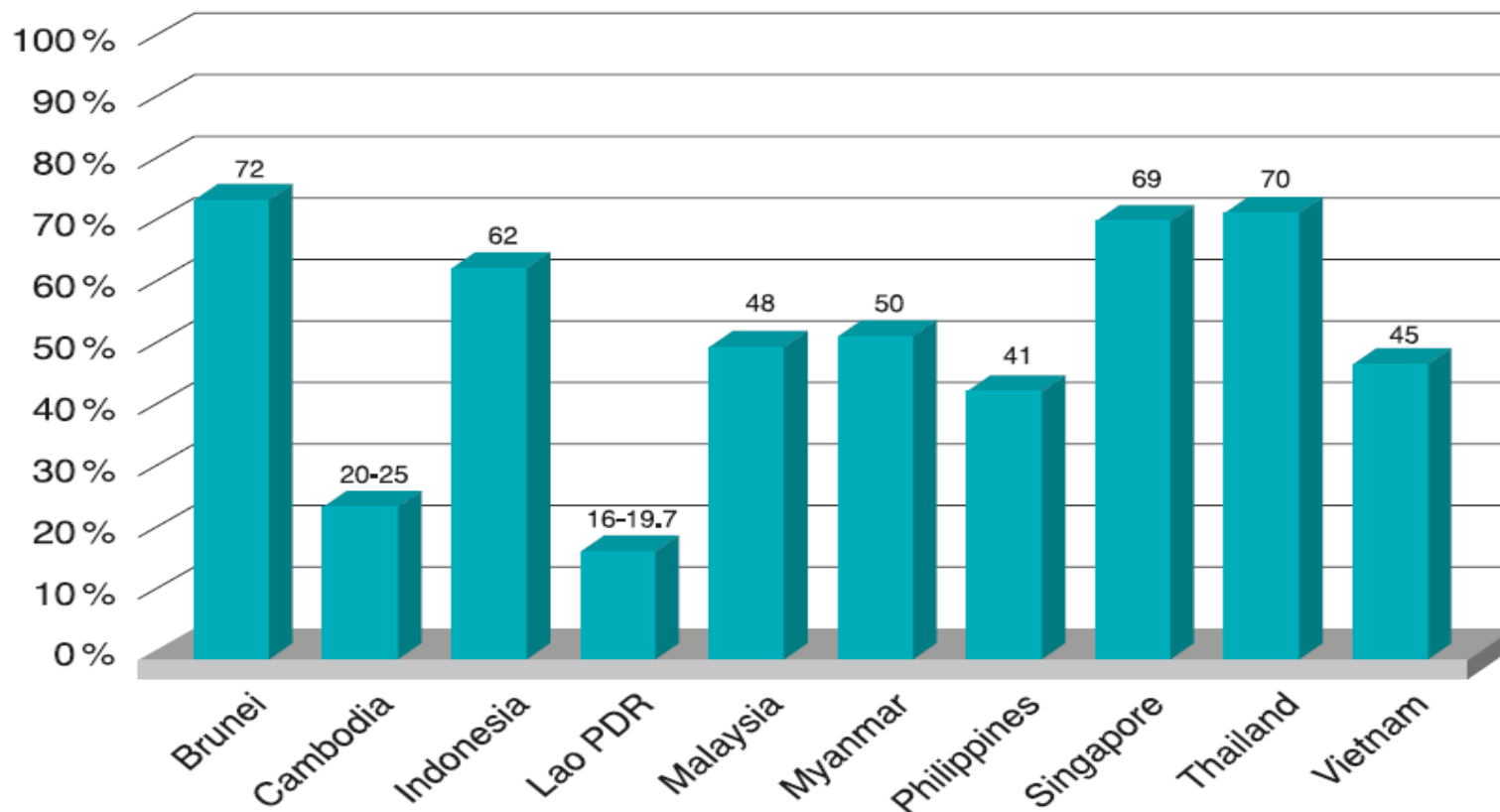
# Price of most popular local and foreign cigarette brands (in USD), 2012



Source: SEATCA ASEAN Tobacco Tax Report Card, May, 2013



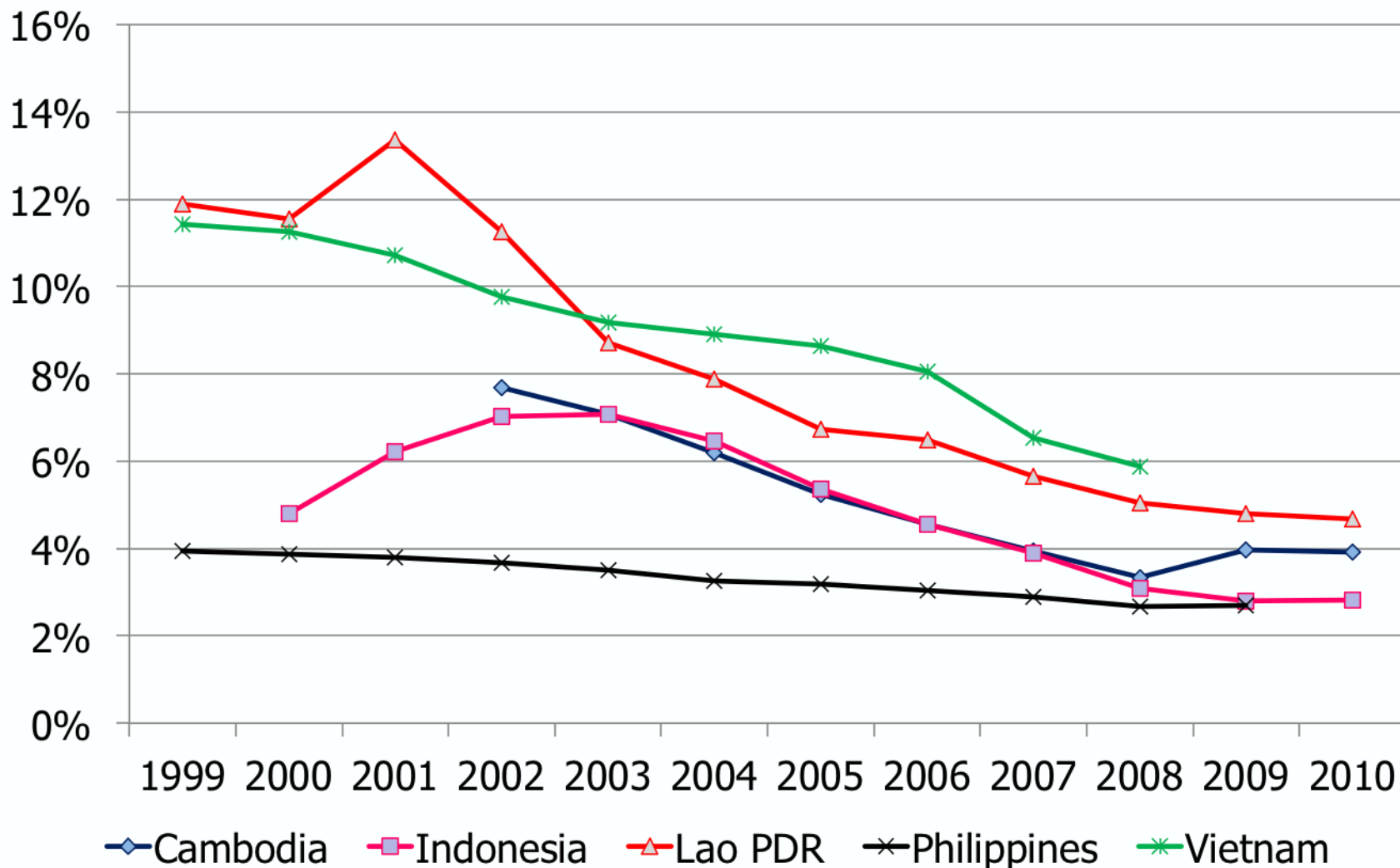
# Tobacco tax burden as percentage of retail price, 2013



Source: SEATCA ASEAN Tobacco Tax Report Card, May, 2013



# Relative Income Prices (RIP), 1999-2010



Source: SEATCA ASEAN Tobacco Tax Report Card, May, 2013



# Estimated Health Care Cost of Tobacco Consumption (in USD million)

Country	Estimated health costs (USD million)	Tobacco tax revenue – average (USD million)	Net gain/loss (USD million)	Ratio of health costs to tax revenue	Remarks
Indonesia	13,900	1,800	-13,720	772%	2001
Lao PDR	3.34	4.9	1.56	68.1%	for only 3 diseases, 2007
Malaysia	1,338	1,107	-231	120.8%	for only 3 diseases, 2005
Myanmar	13.2	41.74	28.54	31.62%	for 9 diseases, 1999
Philippines	2,860 to 6,050	442	-2,418 to -5,608	647% to 1,368%	for only 4 diseases, 2003
Thailand	220	1,080	860	20.37%	for only 3 diseases, 2006
Vietnam	143.7	395.6	251.9	36.32%	for only 3 diseases, 2007

Source: SEATCA ASEAN Tobacco Tax Report Card, May, 2013





# Potential Impact of AEC (1)

## 1. Increasing Cigarette Affordability & Consumption

- Tobacco companies aim to expand business and profits in Southeast Asia
- Zero import tariff may induce the free flow of cheap cigarettes from producer countries such as Indonesia and Philippines to the rest of the countries in ASEAN
- Increase in household incomes and purchasing power to afford more cigarettes



# Potential Impact of AEC (2)

## 2. Higher Health Care Costs, Lower Productivity

- High smoking prevalence and consumption contributed to an increasing number of tobacco-caused NCDs
- Governments must address this growing burden on their health care services budgets
- Governments must also absorb human productivity losses from tobacco-related illnesses and premature deaths
- Weigh the potential economic benefits of increased tobacco trade under AEC against the certain socio-economic costs of increased tobacco use



# Potential Impact of AEC (3)

## 3. Trade disputes between the Government and Tobacco Industry

- ASEAN attempts to create an effective dispute settlement mechanism (DSM)
- All of the cases were brought to WTO
- Tobacco companies file court cases to government

# Potential Impact of AEC (4)

## 4. Obstacle for Parties to Achieve on Path Towards Effective FCTC Implementation

- AEC has the potential to undermine the implementation of FCTC
- Presents new challenges already faced by countries

# Potential Impact of AEC (5)

## 5. Opportunity to advocate for tobacco tax for public health among ASEAN countries

- Political will and collaborative action among member states to protect public health through existing mechanism such as the AFPTC (ASEAN Focal Points for Tobacco Control)
- Social and economic gains



# Policy Recommendations

- Countries should increase excise tax and other types of tax such as additional specific tax or health tax on all types of tobacco products
- Strengthen tax administration measures in each country in order to prepare for the AEC
- Tobacco businesses should not be given any incentive under AEC
- Remove tobacco from Inclusion List in the CEPT Scheme of AFTA that AEC will accelerate

