

## How Tobacco Taxes Can Expand Fiscal Space and Benefit the Poor

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### ASIA'S DOUBLE HEALTH BURDEN

Infectious diseases have generally plagued poorer countries while noncommunicable diseases have affected richer nations.<sup>1</sup> In Asia—where two-thirds of the global population reside and half of the world's poor are found—this scenario is changing. More and more people are suffering from noncommunicable diseases, often as a result of unhealthy lifestyles.<sup>2</sup>

Noncommunicable diseases progress more slowly, compared with many communicable diseases which tend to affect people quickly. This creates complex health needs that are expensive to treat and can overwhelm already stressed health care systems. The problem is predicted to become more acute with the aging of populations.

While its noncommunicable diseases are on the rise, Asia still faces an unfinished agenda of communicable diseases—from water-borne illnesses to malaria. With urban populations likely to increase by 20%–25% by 2050, overcrowding in big cities could also inflate the risk of infectious disease transmission. Increased production of animals for food also has inherent risks as many infectious diseases, such as influenza, are passed from animals to humans.

Hence, Asia's developing economies and health authorities confront a growing, double burden of ever-present and re-emerging infectious diseases—with possible unexpected outbreaks of new ones—as well as an explosion of noncommunicable diseases.<sup>3</sup> Public health experts advocate that the war needs to be waged on two fronts: public education and policies that encourage healthy eating and healthier lifestyles. Raising tobacco taxes, for one, is a win-win measure.

### THE SCOURGE OF SMOKING

**A Global Health Hazard.** Smoking is a global health hazard and a huge challenge. According to the World Health Organization, an estimated 5–6 million deaths were caused by tobacco use in 2010. Mortality is projected to nearly double by 2030.<sup>4</sup> About 1 billion people will be killed from smoking this century unless

### Highlights

- Without intervention, cigarette smoking will eventually kill about 267 million current and future smokers in the People's Republic of China, India, the Philippines, Thailand, and Viet Nam.
- In these five Asian countries, increasing tobacco taxes is a pro-poor measure that can reduce the number of smokers and smoking-related deaths, and generate substantial new revenues.
- Use of these new revenues to finance health services for the poor can increase impacts on both poverty and health.



Increasing cigarette taxes can significantly reduce the number of current and future smokers.

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smoking cessation significantly increases among adults. Cessation substantially reduces the risks of smoking. Those who quit before the age of 40 can achieve death rates close to nonsmokers.<sup>5</sup>

**Aggressive Tobacco Marketing.** While cessation has become very common in high-income countries (e.g., there are more ex-smokers than current smokers in the United Kingdom), it is not widespread in Asian countries. Out of the world's 1.2 billion smokers, two-thirds live in just 15 countries, 6 of which—the People's Republic of China (PRC), India, Indonesia, the Philippines, Thailand, and Viet Nam—are in Asia.<sup>6</sup> This is partly due to the aggressive marketing done by tobacco companies.<sup>7</sup> The industry actively markets cigarettes and

<sup>1</sup> The main noncommunicable diseases are cardiovascular diseases, diabetes, mental illness, chronic respiratory diseases, and cancer. These are usually caused by unbalanced diets, physical inactivity, alcohol or drug abuse, stress, inadequate sleep, and tobacco use. The main infectious diseases—caused by bacteria, fungi, parasites, and viruses—are lower respiratory infections, HIV/AIDS, diarrheal diseases, tuberculosis, and malaria.

<sup>2</sup> Diabetes, obesity, and excess weight from energy-dense, big-portion, and fast-food meals have become worrisome in Asia. See the International Diabetes Foundation's 2014 *IDF Diabetes Atlas* at [www.idf.org/diabetesatlas](http://www.idf.org/diabetesatlas)

<sup>3</sup> H5N1 (avian influenza), a new regional pandemic, struck as recently as 2009.

<sup>4</sup> Most mortality among smokers is due to neoplastic, vascular, respiratory, and other diseases that can be caused by smoking. World Health Organization. 2011. *MPOWER: A Policy Package to Reverse the Tobacco Epidemic*. Geneva.

<sup>5</sup> Prabhat Jha. 2009. Avoidance of Worldwide Cancer Mortality and Total Mortality from Smoking. *Nature Reviews: Cancer*. Vol. 9; pp. 655–664.

<sup>6</sup> Overall, 80% of the world's smokers are from developing countries, with a commensurate ratio of deaths occurring there.

<sup>7</sup> The Federal Trade Commission says cigarettes are still among the most heavily advertised and promoted products in the world, with spending reaching \$8.6 billion annually in the United States alone. The Southeast Asia Tobacco Control Alliance notes that some governments in developing nations even rely on finance from tobacco companies—under "corporate social responsibility" programs—to cover costs of public services, including schools. See Southeast Asia Tobacco Control Alliance. 2014. *Tobacco Industry Interference Index*. Available: [www.seatca.org/dmdocuments/SEATCA-TII%20Index%20Report.pdf](http://www.seatca.org/dmdocuments/SEATCA-TII%20Index%20Report.pdf)

fighters public health policies (through trade, judicial, and legislative actions) to prevent bans on cigarette advertising, tax increases, and other effective anti-tobacco measures.

**Tackling the Scourge through Policies.** However, all six countries are populous, growing economies, where cigarette smoking is on the rise. A failure to hold down the scourge of smoking will have major public health—and health financing—implications for both current and future generations. Fortunately, tackling the problem of tobacco does not depend on scientists finding an elusive vaccine: legislation that makes cigarettes pricier can directly reduce tobacco use, especially among poor and young people. Policies such as bans on smoking in public places help too, and are needed as a full response to sustain reduced tobacco use.<sup>8</sup>

### TOBACCO TAXES: A WIN-WIN MEASURE FOR FISCAL SPACE AND HEALTH

In 2012, the Asian Development Bank (ADB) investigated how tobacco taxes might reduce consumption and save lives in five of the Asian high-burden countries. The study found that for the PRC, India, the Philippines, Thailand, and Viet Nam, increases in cigarette prices (in the range of 25%–100%) would effectively reduce the number of smokers and the number of smoking-related deaths. Additionally, the increases would generate substantial new revenues, a timely windfall since portions of the populations of these countries receive free or nearly free health care, the costs of which must be met.

**Table: Percentage of Population with Free or Nearly Free Health Care—Selected Countries**

China, The People's Republic of	50%
India	30%
Indonesia	30%
Philippines	30%
Thailand	>70
Viet Nam	20%

Source: ADB. 2011. Burden of Health Costs. In *Who Will Pay for Asia's Double Burden? Innovative Financing is Needed to Address an Unprecedented Burden of Communicable and Noncommunicable Diseases*. Manila. [www.adb.org/publications/who-will-pay-asias-double-burden-innovative-financing-needed-address-unprecedented-burd](http://www.adb.org/publications/who-will-pay-asias-double-burden-innovative-financing-needed-address-unprecedented-burd)

**Reduced Cigarette Consumption.** In the five countries covered, increasing cigarette prices by 50%, which corresponds to a tax increase of about 70%–122%, would reduce the number of current and future smokers by nearly 67 million and reduce tobacco deaths by 27 million.<sup>9</sup>

**Increased Revenues.** A 50% increase in cigarette prices will also



Image used for the World No Tobacco Day, 31 May. Source: World Health Organization [www.who.int/campaigns/no-tobacco-day/2014/poster/en/](http://www.who.int/campaigns/no-tobacco-day/2014/poster/en/)

generate \$24 billion in additional revenue annually. This would mean a 143%–178% increase over each country's current cigarette tax revenue. The revenue increase, or “fiscal space,” would average 0.30% of gross domestic product, with a wide range of 0.07%–2.52%.

**A Pro-poor Measure.** The poorest socioeconomic groups in each country will carry only a small part of the extra tax burden. In return, they will reap a substantial proportion of the health benefits of reduced smoking. The ratio of health benefits accrued to the poor to the extra taxes borne by the poor would range from 1.4 to 9.5.

Clearly, large increases in the tobacco tax in all five countries are unusually attractive for public health and public finance, and are pro-poor in their health benefits.

### Related Links

- ADB. 2011. *Who Will Pay for Asia's Double Burden? Innovative Financing is Needed to Address an Unprecedented Burden of Communicable and Noncommunicable Diseases*. Manila. Available: [www.adb.org/publications/who-will-pay-asias-double-burden-innovative-financing-needed-address-unprecedented-burd](http://www.adb.org/publications/who-will-pay-asias-double-burden-innovative-financing-needed-address-unprecedented-burd)
- ADB. 2012. *Tobacco Taxes: A Win-Win Measure for Fiscal Space and Health*. Manila. Available: [www.adb.org/publications/tobacco-taxes-win-win-measure-fiscal-space-and-health](http://www.adb.org/publications/tobacco-taxes-win-win-measure-fiscal-space-and-health)
- ADB. 2014. Asian Development Outlook. [www.adb.org/publications/series/asian-development-outlook](http://www.adb.org/publications/series/asian-development-outlook)

<sup>8</sup> Other policies include comprehensive bans on tobacco advertising and promotion; better public information, for example by means of mass media counteradvertising and prominent labels on cigarette packs about the health risks of tobacco use and the benefits of quitting; and help for smokers who want to stop smoking.

<sup>9</sup> The study reckoned that in the absence of intervention, smoking would eventually kill about 267 million current and future cigarette smokers who are alive today in the five countries.

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