

This policy brief is based on a research study, *Income and cigarette price responsiveness: Evidence from Vietnam*, conducted by the Development and Policies Research Center (DEPOCEN)

Tobacco Excise Tax Can Be A Progressive Policy Tool

Smoking is one of the most alarming public health issues in Vietnam. The country is ranked among those with the highest smoking prevalence worldwide. There are 15.6 million Vietnamese adults who consume tobacco products, and, among them, 12.6 million smoke cigarettes. Tobacco users and cigarette smokers account for approximately 22.5 percent and 18.2 percent, respectively, of the adult population in the country as of 2015.¹ Furthermore, nearly 40,000 people in Vietnam die each year due to tobacco-related illnesses. Without proper measures, this death toll is estimated to reach 70,000 per year by 2030.² The high prevalence of smoking can be largely attributed to the underutilization of tobacco taxation, as a result of which cigarettes became even more affordable in the country during the period of 2008 to 2016.³

Not only has raising taxes on tobacco proven to be the most effective and cost-effective method of reducing smoking worldwide, it can also be a progressive policy tool. Based on data from a large-scale household survey on cigarette consumption conducted in Vietnam in 2017–2018, this research finds that smokers with low incomes are more responsive to price than those with high incomes.

Smokers in Vietnam consume on average more than five cigarette packs per week. As shown in Table 1,

there is no significant difference in the number of packs consumed by low- and high-income smokers, which may be explained by the fact that the former choose to smoke cheaper cigarette brands. Smokers with lower incomes are spending a higher share of their income on cigarettes compared to high-income smokers, as is observed in many other countries.⁴ This disparity may explain why low-income smokers are more price sensitive.

This finding is consistent with the results of a previous study conducted in 1997–1998.⁵ These studies imply that a given increase in price, induced by a tax increase, would result in a disproportionately greater reduction in cigarette use among poorer smokers. Considering the benefits of reduced tobacco use, including saved healthcare costs and more years of labor productivity, therefore, the net effect of a higher tobacco tax is a greater benefit to the poor.⁶

The relationship between income and price sensitivity can be disguised to a certain extent by high variation in cigarette prices. Since low-income smokers choose to smoke cheaper brands, a 1 percent increase in their price can be marginal in absolute terms, thereby resulting in a smaller decrease in consumption. Indeed, the spread of cigarette prices in Vietnam is relatively wide, ranging from less than VND 6,000 to more than VND 25,000 per pack, and the range in

¹ Ministry of Health. (2016). Global Adult Tobacco Survey (GATS) Vietnam 2015. Hanoi.

² WHO. (2017). Tobacco: Fact sheet. Available from: <http://www.wpro.who.int/vietnam/topics/tobacco/factsheet/en/>

³ WHO. (2017). WHO report on the global tobacco epidemic, 2017: Monitoring tobacco use and prevention policies.

⁴ IARC. (2011). Effectiveness of tax and price policies for tobacco control. *IARC handbook of cancer prevention volume 14*.

⁵ Kinh, H. Van, Ross, H., Levy, D., Minh, N.T., Thi, V., & Ngoc, B. (2006). The effect of imposing a higher, uniform tobacco tax in Vietnam. *Health Research Policy and Systems*; 16:1–16.

⁶ Fuchs, A., Del Carmen, G., & Mukong, A.K. (2018). Long-run impacts of increasing tobacco taxes: Evidence from South Africa. Washington, DC.

prices has been shown to be greater than in some other Southeast Asian countries.⁷ This present study's findings also show that the effect of income on price responsiveness is more prominent when cigarette

prices vary less. Adding a specific excise tax, therefore, can help bridge the wide price gaps among cigarette brands, thereby making the tobacco tax policy even more progressive

Table 1. Cigarette consumption pattern in Vietnam by income group

| Variable | High income | Low income |
|--|-------------|------------|
| Weekly consumption (packs) | 5.4 | 5.5 |
| Price (VND 1,000) | 12.7 | 10.5 |
| Income share spent on cigarettes (%) | 4.3 | 14.3 |
| Household income share spent on cigarettes (%) | 2.7 | 5.3 |

1 USD ~ VND 22,370

Source: Data from the Tobacco Consumption Survey conducted in Vietnam in 2017-2018 by DEPOCEN

These findings have two policy implications.

First, increasing tobacco taxes – especially specific excise tax – in Vietnam will make the tax policy more progressive and disproportionately benefit the poor in the long term. The Government of Vietnam therefore should establish a clear roadmap to increase tobacco excise tax to at least 70 percent of the retail price, as

suggested by the WHO, to reduce smoking prevalence in the country.

Second, the Government of Vietnam should switch from the current purely ad valorem excise tax structure to the proposed mixed system with an increasing, inflation-adjusted value of the specific component to reduce price variation, which will further contribute to making the tobacco tax more progressive.

The Development and Policies Center (DEPOCEN) is funded by the University of Illinois at Chicago's (UIC) Institute for Health Research and Policy to conduct research on tobacco control in Vietnam. UIC is a partner of the Bloomberg Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor do they represent, the views of UIC, the Institute for Health Research and Policy, or Bloomberg Philanthropies.

⁷ Liber, A.C., Ross, H., Ratanachena, S., Dorotheo, E.U., & Foong, K. (2015). Cigarette price level and variation in five Southeast Asian countries. *Tobacco Control*, 24:137–42.