

# Evidence on illicit trade of tobacco products in Viet Nam

## Key Findings

- Increasing cigarette prices via higher cigarette excise taxes has had no impact on the illicit trade of cigarettes. Vietnamese smokers have not switched to illicit cigarettes when prices increased.
- Raising cigarette taxes effectively reduces consumption, as smokers are more likely to quit rather than switch to more expensive or illicit brands.
- Currently, illicit cigarettes are generally more expensive than legal products in Viet Nam. Even in the case of a substantial increase in cigarette taxes, an average illegal cigarette pack would likely still be more expensive than an average licit cigarette pack.
- Contrary to the tobacco industry's claims, independent estimates using transparent and accepted methodologies demonstrate that the level of illicit trade declined even after the increase of taxes implemented in 2016 in Viet Nam.

## Background

Viet Nam has among the highest number of smokers in the world, and there is abundant evidence documenting the negative consequences of smoking on health in Viet Nam. Cigarette consumption increases the risk for numerous diseases, including various types of cancers, respiratory disorders, and cardiovascular diseases. Around 40,000 deaths from tobacco-related illnesses occur in Viet Nam each year. The associated economic loss (in terms of cost of health services and lost productivity due to illness) has been estimated at VND 25 trillion each year, or almost 1% of Viet Nam's annual GDP.<sup>i</sup>

Low cigarette taxation is a major cause of this problem<sup>ii</sup> as cigarettes in Viet Nam are relatively cheap compared to other middle-income countries, and income growth in Viet Nam has made cigarettes even more affordable over the past decade.<sup>iii</sup> Indeed, increasing tobacco taxes is the single most effective and cost-effective policy to reduce tobacco consumption. Viet Nam's national government has outlined several options for increasing tobacco taxes and reforming the tobacco tax law in line with the best practices on tobacco taxation.<sup>iv,v,vi</sup>

However, the tobacco industry (and its front groups) continues to present the illicit trade of

tobacco products as a reason to slow, stop or reverse tobacco control efforts in Viet Nam, including increasing tobacco excise taxes. This is not new, as this is a common practice globally, where industry estimates of illicit trade, usually using non-transparent and flawed methodologies, grossly overestimate the illicit market. These exaggerations—or outright lies—about the economic and social consequences of implementing effective tobacco control policies severely undermine honest and effective public health efforts. Therefore, understanding the intersection of tobacco taxation and illicit trade is crucial for effective policy formulation.

Fortunately, a recently expanding empirical literature in Vietnam is illuminating the nature of the relationship between tobacco taxes and illicit trade. This policy note summarizes the independent evidence on illicit trade on tobacco products in Viet Nam and provides more evidence that will reassure stakeholders that tobacco taxes and other tobacco control efforts should be strengthened, not diminished. This document is part of a policy note series, which provide empirical evidence showing the advantages of tobacco tax increases in Viet Nam.

## Findings

### No substitution to illicit brands

Cigarette tax increases have no impact on cigarette illicit trade. When faced with an increase in cigarette prices, Vietnamese smokers exhibit a higher likelihood of swapping out a low-priced domestic brand for another domestic higher priced brand. DEPOCEN<sup>vii</sup> recently conducted a discrete choice experiment, gathering data on the preferences of smokers when cigarette prices change as result of tax reforms. The results clearly demonstrate that when smokers face higher cigarette prices there is no substitution to illicit brands. Indeed, reducing consumption or even stopping is more common than shifting to costlier foreign brands and/or illicit alternatives. This study highlights a significant finding: the 'opt-out' option emerges as a substitute for low-priced brands within the alternatives the Vietnamese smokers face. This suggests that individuals who prefer low-priced brands are more likely to reduce or stop purchasing any brands when prices increase.

These findings are consistent with recent illicit trade estimates from Viet Nam. Contrary to the tobacco industry’s predictions, independent estimates demonstrate that the level of the illicit trade declined even after the increase of taxes implemented in 2016 on tobacco products in Viet Nam (Table 1).

Table 1: Prevalence of illicit cigarettes in Viet Nam (%)

Year	Illicit Cigarettes (%)
2012	20.7%
2017	13.72%

Note: Based on Nguyen and Nguyen 2020<sup>viii</sup>. The 2017 data are based on the TCS 2017 while the 2012 results are from VITA 2012

After the tax increase, illicit cigarettes accounted for only about 13.72% of the total cigarette consumption in Viet Nam in 2017, lower than the 20.7% estimate in 2012 (before the tax increase).

### Cigarette prices and Illicit trade

Survey data also reveal that unlike many other countries where illicit brands are cheaper, illicit cigarettes in Vietnam are, on average, more expensive than licit products and smokers of illicit brand tend to have higher incomes, challenging the often assumed notion that lower income

groups are the ones consuming illicit brands.<sup>ix</sup> Recent estimates<sup>x</sup> show that the excise tax rate could have been raised from the 2012 rate of 65% of the factory price to 85% without causing the average price of legal cigarettes to exceed that of illicit cigarettes; and therefore, the excise tax increases from 65% to 70% of the factory price in 2016 did not make an average legal cigarette pack more expensive than an average illicit cigarette pack.

Survey data also show that illicit trade is not evenly distributed geographically. Illicit trade in Viet Nam seems to be highly concentrated in southern provinces bordering Cambodia (accounting for over 84% of illicit trade). Illicit trade is also concentrated in two dominant brands, Jet and Hero, that together represent more than 80% of the illicit market.<sup>xi</sup> Surveys also show those smokers consuming illicit brands hardly ever buy illegal cigarettes from duty-free shops or from abroad. Smuggled cigarettes were mostly obtained from local registered retailers. This suggests that inspection of cigarette retailers, especially convenience stores and coffee shops, is likely to be a cost-effective measure to detect and possibly deter illicit cigarettes. Evidence in Viet Nam suggests that prices are not a driver of illicit cigarette consumption,<sup>xii</sup> and this illicit trade may be more linked to other phenomena, like weak market control enforcement. Like other countries facing such challenges, increasing supply chain control (such as effective licensing of retailers) and providing more tools to the law enforcement authorities are likely to be effective to reduce illicit trade.

### Cigarette tax revenue and illicit trade

The tobacco industry tends to exaggerate not only the illicit trade problem, but also the negative impact on the economy. For example, a recent independent analysis<sup>xiii</sup> showed that illicit trade prevented the collection of between \$223 and \$295 million USD in government revenue in 2012. Even though these are significant amounts, these estimates of government revenue loss are 10% to 30% lower than the estimated loss calculated by the Viet Nam Tobacco Association. What is more germane to the current discussion about tax reform is that higher taxes have been shown consistently to raise revenue and even if illicit trade increases, there is little evidence of the loss

from illicit trade outweighing the gains from the higher taxes.

### Conclusion and policy recommendations

Global evidence suggests that raising taxes on tobacco is the most effective and cost-effective way of reducing tobacco consumption, even after taking the threat of illicit cigarette trade into account. Evidence for Viet Nam consistently shows that illicit cigarettes are more expensive than legal products in Viet Nam. Indeed, prices are not a driver of illicit cigarette consumption in Vietnam, and illicit trade may be more linked to other phenomena, like weak market control enforcement. Increasing supply chain control (such as effective licensing of retailers) and providing more tools to the law enforcement authorities are likely to be effective to reduce illicit trade. In brief, there is no evidence that Vietnamese smokers switch to illicit cigarettes

when prices increase. That is, even in the case of a substantial increase on cigarette taxes, an average illegal cigarette pack would likely still be more expensive than an average licit cigarette pack. So, contrary to the tobacco industry arguments, increasing cigarette prices via higher cigarette excise taxes would have little or no impact on the cigarette illicit trade.

The tax reform bill in discussion in 2024 proposes to move from the current pure ad valorem tax to a mixed structure including a specific component. If the bill is implemented and results in a significant increase in cigarette prices, this will reduce tobacco consumption as well as brand price dispersion, particularly by driving the price of the cheapest cigarettes up closer to the prices of more expensive ones and will have little or no impact on illicit trade. Also, this reform will be simple to implement as it will be based on a tax per pack of 20 cigarettes.

### References

- 
- <sup>i</sup> Levy DT, Bales S, Lam NT, Nikolayev LJSs, medicine. The role of public policies in reducing smoking and deaths caused by smoking in Vietnam: results from the Vietnam tobacco policy simulation model. 2006;62(7):1819-30.
- <sup>ii</sup> DEPOCEN and Tobacconomics, 2024: The potential impact of tobacco tax increase on tobacco use in Viet Nam. Hanoi, Vietnam and Baltimore, MD: DEPOCEN and Tobacconomics, Johns Hopkins Bloomberg School of Public Health, Johns Hopkins University. <https://depocen.org> and [www.tobacconomics.org](http://www.tobacconomics.org)
- <sup>iii</sup> World Health Organization. WHO report on the global tobacco epidemic, 2023: protect people from tobacco smoke. 2023.
- <sup>iv</sup> World Health Organization. WHO technical manual on tobacco tax policy and administration. WHO technical manual on tobacco tax policy and administration 2021.
- <sup>v</sup> World Health Organization. WHO technical manual on tobacco tax administration: World Health Organization; 2010.
- <sup>vi</sup> US National Cancer Institute, World Health Organization. The Economics of Tobacco and Tobacco Control. National Cancer Institute Tobacco Control Monograph 2120 16.
- <sup>vii</sup> Nguyen A, Nguyen The H, Nguyen NA. Brand-switching and tobacco taxation in Vietnam. *Tob Control*. 2022;31(Suppl 2):s88-s94.
- <sup>viii</sup> Nguyen A, Nguyen HT. Tobacco excise tax increase and illicit cigarette consumption: evidence from Vietnam. *Tob Control*. 2020;29(Suppl 4):s275-s80.
- <sup>ix</sup> Nguyen A, Nguyen HT. Tobacco excise tax increase and illicit cigarette consumption: evidence from Vietnam. *Tob Control*. 2020;29(Suppl 4):s275-s80.
- <sup>x</sup> Nguyen MT, Dao ST, Nguyen NQ, Bowling M, Ross H, So AD. Illicit Cigarette Consumption and Government Revenue Loss in Vietnam: Evidence from a Primary Data Approach. *Int J Environ Res Public Health*. 2019;16(11):1960.
- <sup>xi</sup> Nguyen NA, Nguyen TH. Illicit Cigarette Trade Study in Vietnam. Hanoi: DEPOCEN; 2019
- <sup>xii</sup> Nguyen MT, Dao ST, Nguyen NQ, Bowling M, Ross H, So AD. Illicit Cigarette Consumption and Government Revenue Loss in Vietnam: Evidence from a Primary Data Approach. *Int J Environ Res Public Health*. 2019;16(11):1960.
- <sup>xiii</sup> Nguyen MT, Dao ST, Nguyen NQ, Bowling M, Ross H, So AD. Illicit Cigarette Consumption and Government Revenue Loss in Vietnam: Evidence from a Primary Data Approach. *Int J Environ Res Public Health*. 2019;16(11):1960.

### Notes

This Policy Note is based on the Vietnam Evidence Matrix<sup>xiii</sup> by Tobacconomics. This Policy Note is part of a set of documents includes “The potential impact of tobacco tax increase on tobacco use in Viet Nam”<sup>xiii</sup> and “The impact of tobacco consumption on employment and productivity in Viet Nam”<sup>xiii</sup> produced by Development and Policies Research Center (DEPOCEN) and the Tobacconomics team. The narratives summarize existing evidence on the economics of tobacco and tobacco control in Vietnam, with a focus on tobacco taxation. The studies are organized by Tobacconomics research core competency, which respond to the industry's arguments against effective tobacco control policies.

### Citation

DEPOCEN & Tobacconomics. (2024). Evidence on Illicit Trade of Tobacco Products in Viet Nam. <https://depocen.org> and [www.tobacconomics.org](http://www.tobacconomics.org)

### About DEPOCEN

Development and Policies Research Center (DEPOCEN) is an independent research organization based in Vietnam. DEPOCEN has gained its reputation among the development and policy researches and consultancy community with its wide range of researches and areas of work. DEPOCEN is a hub for knowledge sharing and promotion for development and scientific advancements. DEPOCEN strikes to lead in development and policies research by connecting scientists, researchers, and practitioners to make significant contributions to Vietnam and regional developments. Visit <https://depocen.org>.

### About Tobacconomics

Tobacconomics is a collaboration of leading researchers who have been studying the economics of tobacco control policy for nearly 30 years. The team is dedicated to helping researchers, advocates, and policymakers access the latest and best research about what’s working—or not working—to curb tobacco consumption and its economic impacts. As a program of the Johns Hopkins University (JHU) (previously housed at the University of Illinois Chicago, or UIC), Tobacconomics is not affiliated with any tobacco manufacturer. Visit [www.tobacconomics.org](http://www.tobacconomics.org) or follow us on Twitter [www.twitter.com/tobacconomics](http://www.twitter.com/tobacconomics).