

U.S Trade Policy and Cigarette Smoking in Asia

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Paper examines the impact of trade liberalization on cigarette consumption.

Annual Data from 10 Asian countries – 1970 to 1991 (observations = 220)

LIST A

Tobacco Markets Opened to Foreign Companies in 1980's

Japan
Taiwan
South Korea
Thailand

LIST B

Market Remain Relatively Closed to Foreign Companies thru 1991

China
India
Indonesia
Malaysia
Pakistan
Philippines

Section 301 of the 1974 Trade Act and amendments used to persuade List A countries to open up markets.

Section 301 calls for the President of the US to investigate instances of trade practices by other countries that discriminated against U.S. firms

Section 301 called for negotiation to reduce or eliminate trade barriers and authorized the President to impose retaliatory sanctions if markets were not opened.

This negotiating framework was used to open Japan, South Korea, Taiwan and Thailand.

Thailand

U.S. argues that import barriers and advertising restrictions violate GATT principles

GATT responds:

- 1) Ban on imports is a violation of international trade treaty

- 2) Thai government's right to restrict overall supply using a variety of policies was upheld
- 3) Thai government use of:
 - a. High cigarette excise taxes
 - b. Ban on advertising

was upheld – as long as they are evenly applied to domestic and foreign products.

The Thai precedent is very important – tobacco control measures are legitimate if evenly applied.

In Thailand there was a 350 percent increase in cigarette imports.

Market share of US companies rose from close to 0 to 4 percent.

Research Design

List B countries are used as controls for comparison with countries that open markets – that is, List A countries

Dichotomous variable (Dummy Variable) is used to capture the impact of Section 301 agreements

Per capita Gross National Product also included as an additional determinant of demand.

Fixed effects are used to for country and time specific attributes.

RESULTS:

301 Agreements had a significant effect on cigarette consumption – countries that opened to U.S. manufactures experienced:

- 1) A 600 percent increase in U.S. manufactures' market share – compared to what would have been the case without trade liberalization.
- 2) Average cigarette consumption was, on average, 10 percent higher as a result of liberalization.
- 3) U.S. companies significantly increased advertising and promotion – some evidence that women and the young were particularly targeted.

- 4) If additional tobacco control measures are not implemented, trade liberalization will result in an increase in morbidity and mortality associated with cigarette smoking.