

# The Impact of Trade Liberalization on Tobacco Consumption

Taylor, Chaloupka, Guindon, Corbett

in *Tobacco Control in Developing Countries*, Oxford University Press.

Taylor et al.: Good general discussion about how trade agreements lower trade barriers, and some of the issues that arise with trade treaties.

Some general trends:

The percentage of tobacco grown that is exported has tripled between 1975 and 1995

There has been a significant increase in global tobacco trade since 1975.

Tobacco consumption is on the rise globally.

When tobacco trade is liberalized (lower non-tariff and tariff barriers), there are several effects:

- 1) Increased competition in domestic markets
- 2) Reduction in the prices of tobacco products
- 3) Increase Advertising and Promotion Expenditures
  - a. International Companies to gain a foothold
  - b. Domestic Producers to protect their market shares

The impact of these changes:

- 1) Lower prices lead to more consumption
- 2) Higher advertising expenditures lead to more consumption

Long-Run impact

- 1) More smokers
- 2) More smoking related illness and death
- 3) Greater health care expenditures
- 4) Losses in productivity and welfare

Why not prevent trade liberalization to control tobacco consumption? Economists argue that this is misguided policy for the following reasons:

- 1) Restrictive trade policies usually motivated by a desire to protect domestic producers – not to protect public health.
- 2) Tobacco control efforts are weaker when there are significant trade barriers
- 3) Trade facilitates economic growth and increases in income are linked to improved health outcomes – longer life expectancy, lower infant mortality and reduced morbidity.

World Trade Organization: Discussion of GATT

Required European countries to lower tariffs on imported tobacco products  
Required United States to lower tariffs on imported tobacco products

There is an exemption for products that have health risks  
But this can only be invoked if the same burden is put on domestic producers

Rigorous tobacco control, uniformly applied to Domestic and International producers, is consistent with GATT

**BUT:** Domestic and International products must be treated in the same manner

Therefore

- 1) Advertising bans
- 2) High excise taxes
- 3) Youth access restriction
- 4) Indoor smoking regulation

can be implemented, provided they are imposed in exactly the same way on domestic and foreign producers.

Tariff and Non-Tariff Trade Barriers

Non-tariff Barriers

- a) Regulation, inspection, testing, and labeling requirements that are not imposed on domestic producers

- b) Domestic Content laws – a certain percentage of a product must be of domestic origin
- c) Quotas and licensing requirements

Non-tariff barriers are rules, regulations and procedures that are imposed on foreign producers but not imposed (or not imposed as rigorously) on domestic producers. This means that costs and prices will be higher for foreign producers than for domestic producers

GATT proposes to eliminate non-tariff barriers

U.S. Domestic content law required 75 percent of tobacco in cigarettes to be grown in the United States. This was rule a violation by GATT and the law was eliminated.

Regression Model in Taylor et al.

Dependent Variable: Per Capita Cigarette Consumption for 42 countries, 1970 to 1995

Determined by

Trade Openness (T)

Per Capita GNP (Y)

Lag Cigarette Consumption (C<sub>-1</sub>)

Year and Country fixed effects

Sample partitioned into low, middle and high income countries.

Results: All explanatory variables are significant

Low Income Countries

$$C = 0.134 + 0.130T + 1.561Y + 0.292C_{-1}$$

Middle Income Countries

$$C = 0.346 + 0.057T + 0.239Y + 0.749C_{-1}$$

High Income Countries

$$C = 0.184 + 0.010T + 0.126Y + 0.964C_{-1}$$

The key point here is trade openness has a much bigger impact on low-income countries than it does in medium and high-income countries. In high-income countries the effect is not large (and not statistically significant).

The estimated coefficients are consistent with a diminishing marginal impact of openness – openness has a big effect in lower income countries and a smaller impact as per capita income rises.

The other point of interest is that higher income pushes up cigarette consumption, but this impact is greater in lower income countries. Thus as lower income countries grow, cigarette consumption will increase significantly.

This equation can also be used to predict consumption if one can compute future values of T.

T is defined as:

$$\text{Trade Openness} = T = (\text{Exports} + \text{Imports})/\text{GDP}$$

Conclusions:

Globalization and trade will increase cigarette consumption.

Countries need to be proactive in establishing strong tobacco control measures:

Raise tobacco excise taxes on all tobacco products (domestic and foreign)

Pass and enforce youth access provisions

Impose advertising and promotion bans

Pass and enforce clean indoor air legislations.

WTO has ruled that if these provisions apply to both foreign and domestic tobacco products, then there are no violations of GATT.