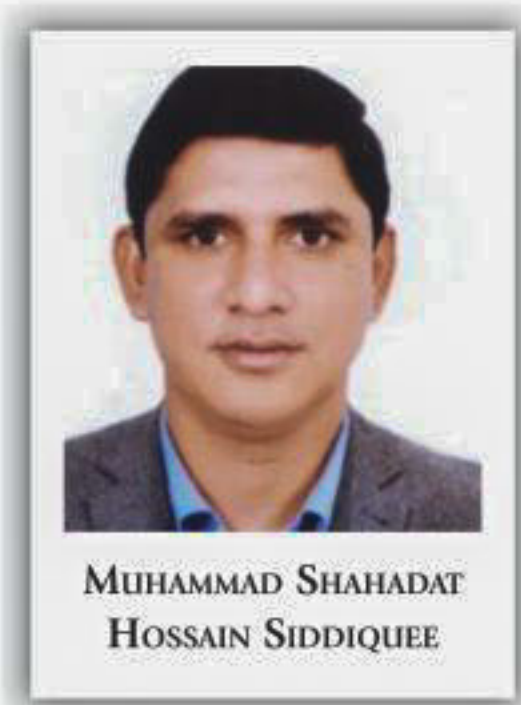


Proposed tobacco tax structure: what could be achieved?



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BANGLADESH aspires to become a tobacco-free country by 2040. In order to achieve this goal, it is important to explore the tobacco economy of Bangladesh, which comprises both demand for and supply of tobacco products, tobacco taxation and the economic cost of tobacco use.

Of these, tobacco taxation plays key determining roles in reducing the demand for and supply of tobacco products as well as in reducing economic cost of tobacco use. So, it is urgent to better understand the existing tobacco structure of Bangladesh and its effectiveness.

And what is the importance of introducing new tobacco tax structure for Bangladesh? All queries are answered from the recent study titled 'Economics of tobacco and tobacco taxation in Bangladesh' conducted by Brac Institute of Governance and Development (BIGD) in close collaboration with the University of Illinois at Chicago (UIC).

The sequence followed in this article allows us to discuss the prevailing tobacco tax structure of Bangladesh, effectiveness of tobacco taxation and finally, the importance of introducing new tobacco tax structure for Bangladesh.

Bangladesh has developed a complex multi-tier ad valorem excise tax (i.e., the amount of tax is proportional to the price per unit of tobacco) for tobacco products.

Due to ad valorem nature of taxation, government gets only a

portion of increased price and the rest is enjoyed by the tobacco industry. This encourages tobacco industry to expand their business and increase the risk to public health.

Such tax system results in large variations in tobacco tax bases and tax rates depending on the type of tobacco products like cigarette, biri and smokeless tobacco (SLT), product characteristics (i.e., filter or without filter) and cigarette brands (i.e., low, medium, high and premium).

Four tiers of market retail price (MRP) of cigarettes create wider gaps between tiers and create opportunities for smokers to switch to low priced brand rather quitting. The government is also deprived of revenue due to such behavioural change.

In Bangladesh the lowest tier of cigarette contributes only 31 percent of revenue though it captures 53 percent of market share. This is due to disproportionately low tax base compared to other tiers.

Biri and SLT products are extremely cheap and much affordable to the low-income class of consumers and also relative to their growing per capita income. Informal manufacturing of SLT products (zarda and gul) help to evade taxes at a large scale. Finally, tax base for cigarette, biri and SLT are different and thus makes the system more complicated and unfair.

Availability of extremely cheap and affordable Cigarette brands compared to other neighbouring countries like India, Nepal, Sri Lanka, Thailand and Indonesia is also the resultant outcome of the current cigarette tax system.

Therefore, cigarette users are not discouraged and this makes the demand side of tobacco consumption worrisome and ineffective. Moreover, biri and SLT prices are relatively low, which make these products more affordable to the low income-class of tobacco users. Last but not least, lack of data on SLT products makes the enforcement of law and monitoring



REUTERS/FILE

Tobacco taxation plays key determining roles in reducing the demand for tobacco products and bringing down the economic cost of tobacco use.

difficult and thus, the loss of revenue for the government exchequer.

Findings from the supply side reveal that cigarette and raw tobacco product sales in Bangladesh have increased in recent years. Moreover, prevalence of cigarette smoking is almost constant despite the 1 percent population growth over the last one decade.

Therefore, recent increase in price through existing tax system work as an incentive for tobacco growers as well as manufacturers to produce and supply more raw tobacco and tobacco products respectively.

In addition, tobacco use is deadly and costly as it is treated as one of the major risk factors for morbidity and mortality and it has severe economic

consequences for the households with at least one smoker.

For example, tobacco use in Bangladesh comprises 26 percent of deaths among men and 10 percent among women in 2016. The economic consequences of tobacco use arising from lost productivity and healthcare costs amount to Tk 15,860 crore or 1.4 percent of GDP in Bangladesh.

Therefore, it is very essential for Bangladesh to introduce new tobacco tax structure with a view to reducing the demand for tobacco use effectively, the supply of tobacco products and the economic cost of tobacco use.

The most effective way to reduce tobacco use is to raise the prices of

tobacco products in such a way that help lowering the affordability of the tobacco users. This would, in turn, encourage current adult smokers to quit, effectively reduce the prevalence of smoking, reduce premature deaths and generate additional tax revenue.

The proposed measures to tackle tobacco use have been done following the problems in the existing tobacco prices and tax system.

A policy reform of gradual price increase and reducing the price tiers of cigarettes from four to two and raising excise tax rates from 55 percent and 65 percent to 65 percent and 68 percent respectively for the low and high tier over the next five years is expected to result

in a significant increase in excise tax revenue while reducing consumption at an impressive rate.

Such measures would help in reducing the price gaps between tobacco products and brands to limit the ability of tobacco users to substitute between products. As an alternative avenue, this study proposes specific taxes on cigarette as it is likely to generate more stable and predictable revenue than existing ad valorem tax.

Moreover, specific excise taxes tend to be easier to administer and more effective in reducing tobacco use and increasing tax revenue.

Moreover, introduction of a specific excise tax by the government of Bangladesh should be regularly increased over time beyond inflation and income growth to ensure that the affordability of tobacco products continues to decline.

In case of specific excise tax, no portion of this would be enjoyed by the tobacco industry. Finally, harmonisation of the tax base across the tobacco products is required. To control the supply side, alternative livelihood measures for the tobacco growers could be introduced.

In addition, any kind of cash or in-kind incentives for the tobacco producers by the tobacco industry should be stopped as all these work as cost advantages.

By rising prices through specific excise tax and lowering the tiers (or harmonisation of the tax base) would help to prevent cigarette smoking initiation, promote cessation, lower consumption among the continuing smokers, and reduce the death and disease and economic cost of smoking.

Finally, effective implementation of the proposed policies might help to bring the goal of tobacco-free Bangladesh into reality.

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TRADE WAR

China lets yuan break key 7-per-dollar level for first time in decade

REUTERS, Shanghai

CHINA let the yuan breach the key 7-per-dollar level on Monday for the first time in more than a decade, in a sign Beijing might be willing to tolerate more currency weakness that could further inflame a trade conflict with the United States.

The sharp 1.4 percent drop in the yuan comes days after U.S. President Donald Trump stunned financial markets by vowing to impose 10 percent tariffs on the remaining \$300 billion of Chinese imports from Sept. 1, abruptly breaking a brief ceasefire in a bruising trade war that has disrupted global supply chains and slowed growth.

Some analysts said the yuan move could unleash a dangerous new front in the trade hostilities - a currency war.

The People's Bank of China (PBOC) provided the early impetus for yuan bears by setting a daily rate for the currency at its weakest level in eight months.

Capital Economics Senior China Economist Julian Evans-Pritchard said the PBOC had probably been holding back against allowing a weaker yuan to avoid derailing trade negotiations with the United States.

"The fact that they have now stopped defending 7.00 against the dollar suggests that they have all but abandoned hopes for a trade deal with the U.S.," he said.

The PBOC gave few clues about its intentions.

In a statement on Monday, the central bank linked the yuan's weakness to the fallout from the trade war, but said it would not change its currency policy and that two-way fluctuations in the yuan's value are normal.

"Under the influence of factors including unilateralism, protectionist trade measures, and expectations of tariffs against China, the yuan has depreciated against the dollar today, breaking through 7 yuan per dollar," the PBOC said.

The central bank set the yuan's daily midpoint at 6.9225 per dollar before the market open, its weakest level since Dec. 3, 2018.

"Today's fixing was the last line in the sand," said Ken Cheung, senior Asian FX strategist at Mizuho Bank in Hong Kong.

"The PBOC has fully given the green light to yuan depreciation."

The onshore yuan finished the domestic session at 7.0352 per dollar, its weakest level since March 2008. Monday marked the first time the

yuan had breached the 7-per-dollar level since May 9, 2008.

With the escalating trade war giving Beijing fewer reasons to maintain yuan stability, analysts said they expect the currency to continue to weaken.

"In the short-term, the yuan's strength would be largely determined by the domestic economy. If third-quarter economic growth stabilizes, the yuan could stabilize around 7.2 or 7.3 level," said Zhang Yi, chief economist at Zhonghai Shengrong Capital Management in Beijing.

The yuan's weakness against the dollar was not confined to the onshore market. The offshore yuan also slumped, hitting a record low against the dollar of 7.1094 before rebounding to 7.0815 by 0834 GMT.

Monday's slump past the 7-per-dollar level could further intensify the economic conflict between the United States and China. Trump has long been critical of Beijing for manipulating its currency to gain a trade advantage, and further yuan weakness could draw Washington's wrath.

Capital Economics' Evans-Pritchard believes Trump is likely to be angered by the PBOC's explicit linking of Monday's yuan weakness to the renewed tariff threat.

Indeed, the flare-up in trade tensions has renewed global financial market concerns over how much China will allow the yuan to weaken to offset heavier pressure on its exporters.

"It appears the Chinese authorities no longer see the need to limit the tools at their disposal and that the currency is now also considered part of the arsenal to be drawn upon," Rob Carnell, chief economist and head of research, Asia Pacific at ING, said in a note.

Analysts have previously said that authorities will keep depreciation in check due to concerns about potential capital outflows.

Despite slowing economic growth over the past year amid the intensifying trade war, China has not seen a rush of capital flight, thanks to capital controls put in place during the last economic downturn and growing foreign inflows into Chinese stocks and bonds.

REUTERS, Shanghai/Hong Kong

WHEN 23-year-old Chinese student Aaron Huang started his hunt for an Android replacement for his Apple iPhone in April this year, it was clear which brand was trying hardest to win him over.

Promotional campaigns by Huawei Technologies Co Ltd and from local retailers supporting the brand were everywhere, said Huang, adding he was influenced by domestic media coverage that portrayed the United States as unfairly targeting the Chinese tech giant in its trade war.

"I felt like I should choose Huawei," he said.

The advertising blitz and grassroots patriotism have proven to be a potent mix, amplifying the brand's existing broad appeal in its home market - a market it is increasingly dependent on as Washington's ban on sales of US components and software to Huawei hammers overseas demand.

Second-quarter China smartphone shipments for Huawei surged by a nearly a third from the same period a year earlier, with its market share rocketing 10.6 percentage points to a record 38 percent, according to research firm Canalsys. Shipments for domestic rivals and Apple Inc plummeted.

Huawei has lifted its China sales target for its consumer business group, said a company source, who was not authorized to speak on the matter and declined to be identified.

Within Huawei, employees refer to current strategies as "Battle Mode" and it has stepped up the opening of new stores including "Experience Centers" in the style of Apple shops, other company sources said. One Experience Center near its South China headquarters opened last month while a bigger one in Shenzhen's tech district of Nanshan will open next month.

Analysts say Huawei has also been transferring unsold smartphone stock from other regions to China and even offering some rare discounting in its



REUTERS/FILE

People put their Huawei smartphones on a table in a restaurant in Shanghai.

home and overseas markets as it seeks to offset sales declines in Europe and the United States.

Huawei declined to comment on its strategies for marketing and managing inventories, or its China sales target. It reiterated an earlier statement that it was not trying to trade on patriotic fervor.

Sales promotions have included interest-free installment payment plans and lotteries for its premium P30 and Mate series. Analysts add that products from its three brands - Huawei, nova and Honor - outnumber those from rivals in every market segment.

Firms like Chinese electronics retailer Gome and small businesses have been eager to lend a hand, linking Huawei phones with patriotic support.

Fang Xia, a 38-year-old restaurant owner in Shanghai, said she was motivated by recent coverage of Huawei's dispute with the United States to offer her customers a special deal. "Tables that have four or more people with Huawei smartphones will get one free plate of Emperor Bullfrog," proclaims an advertisement for her restaurant's signature 88 yuan (\$12.50) deep-fried frog dish.

Huawei's overseas smartphone sales tumbled 28 percent in the

second quarter from the previous quarter, Canalsys data showed, but the full impact of the ban is not yet known.

Warning that Huawei products could be a vehicle for Chinese espionage, the Trump administration now requires that US corporations which conduct business with Huawei gain a special license to do so. US government responses to requests for those licenses could come this week, US Commerce Secretary Wilbur Ross said last Tuesday.

In other measures to counter the ban which could strip its access to Google's Android, Huawei is accelerating efforts to develop its own operating system called Hongmeng. It is looking to roll out a low-end smartphone equipped with Hongmeng in the fourth quarter, state-media outlet Global Times reported on Sunday.

Huawei declined to comment. It has previously said Hongmeng is designed for internet-of-things products and it prefers Android for its smartphones.

Even before the US ban, Huawei had been making big strides in China, moving upmarket into the \$500-800 price range and luring customers away from the likes of Apple with improved camera quality.



REUTERS/FILE

A man sits in front of a board showing market information at a securities brokerage house in Beijing.