

This policy brief is based on a research study, Crowding out effect of tobacco expenditure in Vietnam, conducted by the Development and Policies Research Center (DEPOCEN)

Crowding out effect of tobacco expenditure in Vietnam

With 15.6 million smokers, Vietnam is ranked among the top 15 countries globally for tobacco use. Nearly one half of male adults in Vietnam currently smoke tobacco.¹ Estimated spending on tobacco products in Vietnam totalled approximately VND 31 trillion (0.72 percent of GDP) in 2015.² At the same time, government health expenditure in 2015 was 5.62 percent of GDP.³ Because many smokers belong to low-income households, it is reasonable to expect that, similar to other developing countries, tobacco consumption in Vietnam may have a crowding out effect (i.e. reduced consumption of goods and services because of **tobacco** consumption) on basic necessities such as food, education and health.

Tobacco spending amounts to nearly two percent of household expenditure in Vietnam.

Estimates based on Vietnam Household Living Standards Survey (VHLSS)⁴ data published in 2016 show that on average tobacco-consuming households devote slightly less than two percent of their total expenditures to tobacco products. The share of tobacco spending is higher among low- and middle-income groups (Table 1).

Table 1 Summary statistics for average and budget share of tobacco expenditure

	2016	
	Average annual expenditure on tobacco (VND, in thousands)	Share of tobacco expenditure (%)
All incomes	1,878.906	1.92
Low income	1,170.729	2.19
Middle income	1,873.722	2.02
High income	2,463.579	1.56

Record economic development in Vietnam in recent years has increased the availability and affordability of tobacco products. In addition, the low price of tobacco products facilitates tobacco expenditure for middle- and high-income households in Vietnam, while these expenditures have a higher impact on low-income households. From 2005 to 2016, while nominal income per capita increased by 4.7 times, the retail price of the most popular Vietnamese tobacco products increased by only 2.2 times. In the same period, the relative income price (RIP), measured by the percentage of income required to purchase 100 packs of cigarettes,

¹ Global Adult Tobacco Survey 2015

² Calculated by authors using data from Tobacco taxes in Vietnam: Questions and answers, 2018, <https://iris.wpro.who.int/handle/10665.1/14089>

³ Source: World Health Organization Global Health Expenditure database <https://apps.who.int/nha/database>

⁴ As the nationally representative and official household consumption survey in Vietnam, VHLSS covers approximately 9,000 households representing various income groups from all 63 Vietnamese provinces.

in Vietnam also decreased from 9 percent to only 4.3 percent.

Tobacco spending crowds out the share of household expenditure on education in Vietnam.

Although the crowding out effect of tobacco spending in Vietnamese households is modest—due to the small share of the total household budget that tobacco spending occupies—the data illustrate that an increase in tobacco spending results in a reduction in household spending on education. This crowding out effect mainly appears among low-income households (Table 2). This finding is concerning considering that even though tobacco spending is not a large share of expenditures, it is still crowding out spending on areas vital to human development. In addition, study findings demonstrate that more tobacco spending is related to greater alcohol spending. Together, these effects may lead to long-term negative impacts on household living standards, particularly with respect to child development. By contrast, due to the relatively low price of tobacco products for higher income levels, tobacco consumption has no effect on other expenditures of middle- and high-income households in Vietnam. As a result, it is very likely that tobacco use is increasing inequality in Vietnam.

Table 2 The quadratic conditional Engel curve, by income levels

Commodity group	Overall	Low income	Middle income	High income
Food	0.0293	0.0252	0.1110	0.0337
Health	-0.0234	0.0574	-0.0113	-0.0440
Education	-0.0710***	-0.0928**	-0.2212	-0.0065
Housing	-0.0164	-0.0406	-0.0090	-0.0094
Clothing	-0.0010	0.0024	-0.0226	0.0024
Entertainment	0.0106	0.0087	0.0130	0.0107
Durable goods	0.0450**	0.0298	0.1785	-0.0195
Alcohol	0.0129***	0.0164**	0.0270	0.0049
Energy and Electricity	0.0333**	0.0689**	0.0533	0.0079

*, **, and *** show significance levels at 10%, 5%, and 1%, respectively.

Recommendations

These findings confirm the important role of strong tobacco control measures that lower the demand for tobacco products, which will help to improve overall household welfare through reducing the crowding out effect of tobacco spending. Without a comprehensive strategy to curb tobacco consumption, tobacco use will persist as a barrier to poverty and inequality reduction as well as, ultimately, to sustainable development.

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 illicit trade in cigarettes 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 Bloomberg Philanthropies or UIC.