

The impact of tobacco consumption on employment and productivity in Viet Nam

Key Findings

- Smoking-attributable morbidity and mortality in Viet Nam has increased, becoming an enormous burden on the Viet Nam Social Security Fund.
- Tobacco use weakens workforce productivity: more than 45 million Vietnamese are at risk from tobacco-related illnesses and premature death.
- The contribution of the tobacco industry to the total labor force is small. Total employment in the tobacco industry is only 0.3% of the total.
- An increase in the tobacco tax would lead to a net positive impact on total employment in the economy since a reduction in tobacco use would lead to an increase in the consumption of other goods and services.

Background

The most effective tobacco control tool is to significantly increase excise taxes on tobacco products. It is also a cost-effective policy because it costs little if any extra to implement. The principle is simple:^{i,iii} a sufficiently large tax increase will raise tobacco prices, making tobacco products less affordable, thus driving down tobacco initiation, prevalence, and consumption. Because tobacco demand is relatively inelastic, higher taxes generate an increase in fiscal revenues.ⁱⁱⁱ

Despite the indisputable effectiveness of increasing taxes on tobacco products as a means of reducing tobacco consumption, this powerful policy tool remains underutilized in Vietnam. Combining all three types of taxes on cigarettes in Vietnam (ad valorem tax, contributions to the Tobacco Control Fund or TCF, and value added tax or VAT), the total tax rate applied to domestically produced cigarettes currently accounts for 84.7% of the factory price. Though this nominal tax rate looks high, prices remain objectively low, and current tobacco products are widely affordable, even for the poor in Viet Nam.^{iv} Indeed, the nominal tax and the tax as the

share of the factory price are not good tools to assess the effectiveness of the tobacco tax policy. When considering a standard measure of the performance of the tax measure as the share of tax in retail price,^v the World Health Organization (WHO) estimates that current cigarette taxes only account for about 36.7% of the retail price of the most popular cigarette brand in Vietnam, less than half of the WHO recommendation.^{vi}

In this context, raising tobacco taxes is the most effective (and cost-effective) measure to reduce tobacco affordability and also to reduce smoking and its consequences. To achieve the goal of reducing male smoking prevalence by six percentage points (to 39 percent) by 2020 as set out in the "National Strategy on Tobacco Control through 2020," the Ministry of Health and the Ministry of Finance of Vietnam propose switching from the current purely ad valorem structure of tobacco excise tax to a mixed system and imposing a specific rate in addition to the ad valorem tax. Such a proposal has been opposed ferociously by the tobacco industry, sometimes influencing the Ministry of Industry and Trade

and provincial authorities, by citing increased illicit trade and decreased tax revenue among others. Another argument used by the tobacco industry against tobacco control policies is that reduced tobacco consumption will translate to loss of employment, which would have a significant negative impact on the economy.

This policy note discusses the relationship among tobacco taxes, tobacco consumption, and employment as well as the productivity in Viet Nam. This document is part of a policy note series, which provide empirical evidence showing the advantages of tobacco tax increases in Viet Nam and demystify unfounded concerns on its negative impacts on the economy.

Findings

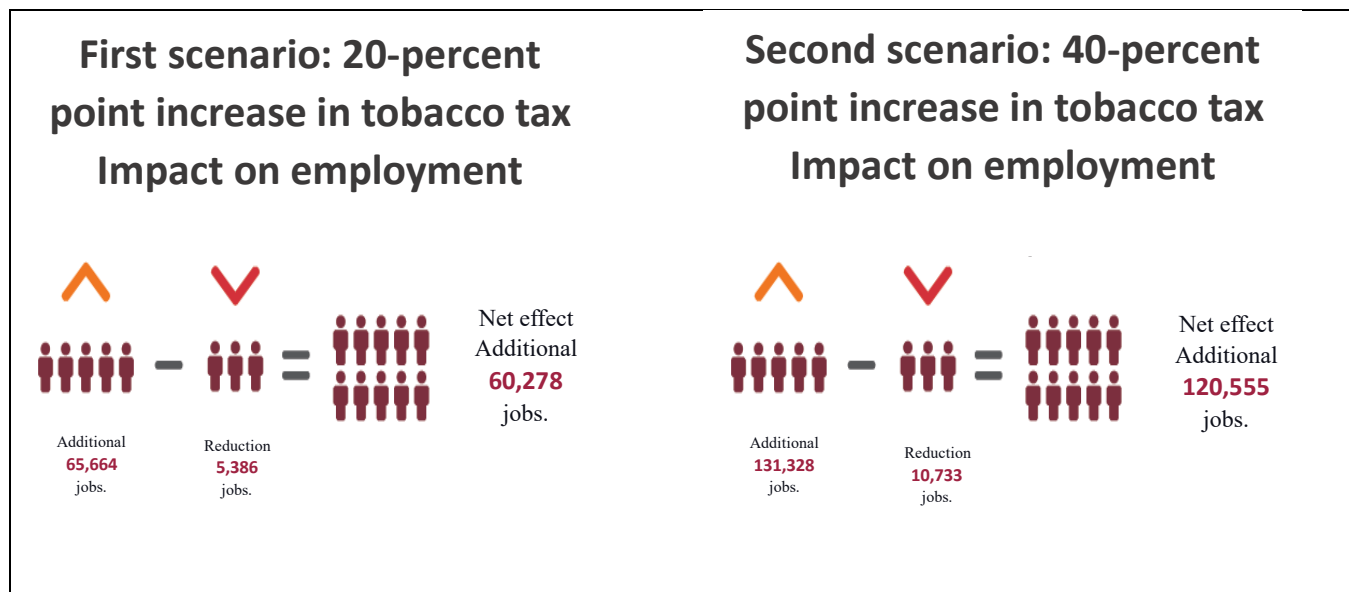
Positive net impacts of tobacco tax increases on employment

One of the main concerns raised against any tobacco tax proposal is the potential adverse effects on employment. The tobacco industry and its allies usually try to persuade the government to not pursue tobacco control policies with the argument that reduced tobacco consumption will translate to loss of employment, which would have an important negative impact on the economy. It has made the same claim globally for decades: increasing tobacco taxes decreases consumption thereby reducing domestic production, creating negative impacts on the tobacco-related labor force including tobacco farmers, workers in tobacco manufacturing and tobacco distributors, and retailers. They argue that all of these declines in employment in the tobacco sector adversely affect the entire economy.

In Viet Nam, empirical evidence emphatically shows that these concerns around the potential negative impacts of tobacco tax on employment are unfounded and exaggerated. In fact, there is evidence suggesting that these fears are unsubstantiated and even misleading. Hien et al. (2020)^{vii} estimated the size of the tobacco industry to the total labour force of Viet Nam in

2010 and showed that the contribution of the tobacco industry was quite modest: total employment in the industry accounted for only 0.3% of the national total. Tobacco farmers comprise the largest group with 96,976 jobs or 0.2% of the total labor force. The number of workers in the tobacco industry was estimated at 13,908 (only 0.028%) and the number of tobacco distributors was about 43,050 jobs (or 0.09%). It should be noted that the retailers who distribute cigarettes often sell other retail products, therefore while an increase in cigarette price could reduce their revenue, the empirical literature suggests that most consumers simply shift to other goods and many retailers report increases in overall sales/revenues. Either way, retailers continue their business rather than shut down their shop as the result of changes in tax policies.

Hien et al. (2020)^{viii} simulated two policy scenarios of a 20-percentage point and a 40-percentage point increase in tobacco taxes. Both scenarios show that the net economic impact (that is the impact on employment on the overall economy, including the interaction with other economic sectors) of these tax increases is positive. In sum, the total employment does not decrease after the tax increase and gains in the Vietnamese economy as tobacco use declines induces an increase in the consumption of other goods and services, which on average are more labor intensive. In the first scenario, a 20-percentage point increase in the tobacco tax leads to a reduction of 5,386 jobs in the tobacco sector. However, the increase in the consumption of other goods and services by 50% amount of the money freed up for consumers from their reduction in tobacco use increases total employment by 65,664 jobs. Therefore, the total employment in the economy increases by 0.12% (or 60,278 jobs). In the second scenario, the total employment increases by 0.24%, corresponding to 120,555 jobs. While tobacco reduces the employment in the tobacco industry by 10,733 jobs, it creates 131,328 jobs in other industries.



Source: own elaboration based on Hien et al. (2020)

Tobacco use and productivity

Although there is no evidence of any negative impact of tobacco tax increases on the labor force of the overall economy, the consequences of tobacco use on productivity is quite straight forward. A recent report of the Viet Nam Health Economic Association measured the productivity loss due to smoking-attributable morbidity and mortality in the country and compared the changes between 2019 and 2022.^{ix}

First, in terms of productivity loss due to smoking attributable morbidity, the authors calculated that in 2019, 23.6 million workdays were lost due to healthcare seeking and caregiving for inpatient days and outpatient visits for diseases attributable to smoking. This number in 2022 was 21.8 million. These estimates are likely underestimating the total costs, as they did not take into account lost workdays or earnings for child patients and excluded other sick days at home when people did not seek healthcare. The total income lost ranged from 3.073 trillion dong (US\$135 million) to 5.4 trillion dong (US\$239 million) in 2019 and from 3.3 trillion dong (US\$144 million) to 5.9 trillion dong (US\$254) in 2022.

Second, productivity loss due to smoking-attributable mortality was estimated using the

present value of lifetime earnings (PVLE) multiplied by the number of smoking attributable deaths. Nearly 112,000 people are estimated to die each year from diseases attributed to smoking, and among these, 78,400 people die before reaching age 75 when people are typically more economically productive. The number of premature deaths from smoking is 12.3 times higher than deaths from traffic accidents (7,610 deaths reported by the Ministry of Public Security in 2019).

While the decrease in the productivity loss due to smoking-attributable morbidity could be explained by the overall decline in the use of health services between 2019 and 2022, there was an increase in productivity loss due to smoking-attributable mortality from 71.0 trillion dong (US\$ 3.1 billion) in 2019 to 85.8 trillion dong (US\$ 3.7 billion) in 2022. By observing the cumulative growth of premature mortality attributed to smoking, authors also estimated a growth rate of 2.8% in the period 2010-2019.

Productivity losses due to deaths from active smoking account for 83 percent of the total, with the remaining 17 percent from secondhand smoke. Although 97 percent of productivity losses due to premature deaths from active smoking are among males, productivity losses

due to mortality from secondhand smoke are more evenly split between males (53 percent) and females (47 percent).

Conclusion and policy recommendations

Evidence shows that the tobacco industry's production chains in the country participate in a reduced and marginal way with the rest of the economic sectors. Even with the small negative impact on employment in the tobacco sector, the effect is more than offset by the increases in employment in the other sectors. In addition, it should be noted that farmers and retailers typically quickly adapt and transfer their efforts to other sectors by growing or selling other products, respectively. The government should consider the negative impact on workers in the tobacco sector, in case those workers require new skills to change jobs. In other countries, governments have easily and successfully

allocated some of the new excise tax revenues to either compensation or retraining of these workers.

In sum, it is essential to prioritize a policy of tobacco tax increases that makes smoking unaffordable to achieve more rapid reductions in consumption. Viet Nam Social Security is currently heavily burdened with high healthcare expenditures due to smoking-related diseases. Stronger tobacco control measures such as higher taxes would reduce smoking prevalence and therefore the health costs attributed to smoking, helping to ensure the sustainability of the health insurance fund.

References

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Notes

This Policy Note is based on the Vietnam Evidence Matrix^{ix} by Tobacconomics. This Policy Note is part of a set that includes “The potential impact of tobacco tax increase on tobacco use in Viet Nam”^{ix} and “Evidence on illicit trade of tobacco products in Vietnam”^{ix} produced by Development and Policies Research Center (DEPOCEN) and the Tobacconomics team at Johns Hopkins University. 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

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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 or follow us on Twitter www.twitter.com/tobacconomics.