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Commentary: The looming threat of Asian tobacco companies to global health

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The Indonesian government is considering a ministerial decree that could triple cigarette production by 2020.[1] The proposed decree follows unsuccessful bills[2] to boost tobacco growing and "farmer prosperity",[3] despite concerns about health and child labour practices.[4] If adopted, manufacturers would be required to use at least 80% locally-sourced leaf, and a 200% excise tax would be imposed on cigarette imports. The measures follow the takeover of the country's major manufacturers, by transnational tobacco companies (TTCs), raising worries that imports will displace domestic production.[5] For public health advocates, however, expanding domestic production is unwelcome. Indonesia already has the world's fourth highest number of smokers,[6] and the highest number of male smokers.[7] Given such weak tobacco control measures, the country is expected to have the world's highest number of smokers within a decade.[8]

This tussle between local economic interests and TTCs is one that has played out worldwide as the tobacco industry has globalized. Since the 1990s, tobacco companies have gobbled up their competitors, and each other, to expand their size and reach worldwide.[9] The result is a highly concentrated industry dominated by TTCs, led by Philip Morris International (PMI) and British American Tobacco (BAT), earning record increases in stock values.[10] To date, the public health community has understandably focused on these big players.

Recent research suggests, however, that a new phase in tobacco industry globalization is on the horizon as several Asian-owned companies position themselves to "go global."[11] Unlike in Indonesia, government retains ownership, in whole or in part, in most of these companies. They have also resisted foreign takeover and, backed by government, are turning outwards to expand into overseas markets (see Box 1). Japan Tobacco International (JTI), formed in 1999 to specifically compete for foreign markets, has already achieved TTC status. By swallowing up rivals, such as RJ Reynolds (non US operations), Reemstma and Gallaher, JTI is now the third largest TTC.[12] Waiting in the wings are South Korea's KT&G,[13] the Thailand Tobacco Monopoly (TTM),[14] the Taiwan Tobacco and Liquor Corporation (TTL)[15] and, most significantly, the China National Tobacco Corporation (CNTC).[16] If successful, these aspiring TTCs may follow in JTI's footsteps, fundamentally changing the global tobacco industry landscape.

What are the public health implications if Asian tobacco companies are successful? First, more players mean fiercer competition for market share, especially in emerging markets. Evidence suggests that increased competition brings downward pressures on price, encourages product innovation and ramps up marketing.[17] All encourage greater consumption of products that already kill six million people annually.[18] Second, enticed by industry promises of tax revenues and employment, Asian governments are being tempted to prioritise tobacco production over public health and other concerns. This choice lies behind the current indecision of the Indonesian government. Further expansion, rather than contraction, of production by new TTCs directly undermines any endgame strategy for tobacco use.[19]

Efforts to substantially reduce tobacco use over coming decades will require the public health community to grapple with the looming risk posed by emerging Asian companies. This begins by demonstrating to Asian ministries of finance that TTCs, Asian or otherwise, create huge net economic costs to societies. In 2012, total economic cost of smoking (health expenditures and productivity losses) equalled 1.8% of the world's gross domestic product (GDP), with almost 40% incurred by developing countries.[20] Moreover, the promised benefits may be fleeting.[21] Asian tobacco companies are already investing in leaf and manufacturing facilities overseas where they can source at least cost and thus earn most profit.[11] This new phase of tobacco industry globalization, above all, underscores the need for collective action through the World Health Organization Framework Convention on Tobacco Control. Any efforts to strengthen supply-side measures - ownership, quotas, licensing and other regulation of production - requires all governments to limit tobacco production, and hold the industry to full account for the true costs of its deadly products.

Box 1: The global business strategies of Asian tobacco companies

- Prior to the 1980s, Asian tobacco companies enjoyed protected monopoly status. The "stick" of US trade representative pressure, and the "carrot" of World Trade Organization (WTO) membership, forced open markets in Japan, South Korea, Thailand and Taiwan.
- The ensuing loss of market share to TTCs prompted a shift by Asian companies to more outward-oriented business strategies.
- KT&G appears best positioned to follow JTI, given its privatisation and incorporation, product range, and growing markets in Asia, Eastern Europe and the Middle East. TTL and TTM have expressed ambitions to globalize, but political indecision regarding privatisation has limited their plans.
- The CNTC already accounts for one-third of world cigarette production which is largely sold domestically. Consolidation and restructuring in recent years has been followed by the expansion of leaf growing, exports and overseas manufacturing. The CNTC, comprising several provincial companies, would add several TTC-sized entities to the global market.

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