



International Policy Aspects Associated with the Excise Sugar Tax Policy: In the Case of Thailand

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Abstract

The purpose of this study is to examine the significance of how well-intended international policy influenced other *Intermediate* countries' (Hurrell, Cooper, Gonzalez, Sennes, and Sitaraman, 2000) national policy through the use-case of excise sugar tax on Sugar-Sweetened Beverages (SSB). Collection of interviews and analysis of data had been collected from 2007-2019, ranging from pre-SSB policy to the implementation of excise tax on SSB. The paper clarified the paradox between the overall public health concerns and the economic concern, and discussed how well-intended international policy had influenced certain players to act accordingly to its will. The pressure came from certain International Organizations included the World Trade Organization (WTO) and World Health Organization (WHO). The situation had been explained through the theory of Institutional Isomorphism – which gives clearer perspectives of why and what made Thailand act the way they did.

Keywords: Sugar tax policy, International relations, Institutional Isomorphism, International system

Objective

This paper aims to explain the significance of how well-intended international policy influenced other countries' national policy - especially the intermediate states.

Introduction

There has always been controversy regarding why and what type of states obeyed international law. Ranging from the classical International Relations (IR) theories' explanation: realism, liberalism, and constructivism. Going beyond these classical IR



theories, this paper adopted the sociological theory of ‘Institutional Isomorphism’ for a deeper understanding of states’ behavior within the global system and how it sometimes undermined the interest of individual states itself. As for the case in Thailand adopting the excise sugar tax policy specifically on Sweetened-sugary beverages (SSB), liberated the domestic sugar price, and ended the quota system by following the well-intended international policy, which puts endless burdens on the domestic agricultural sector or the sugar farmers - especially smaller ones.

Literature Review

Agricultural sector is Thailand’s major source of national income. Where sugarcane and sugar are listed as one of the major agricultural products for the country, that had created more than THB250,000 Million or 21% of the total agriculture GDP (Preecha, 2017). Hence, sugarcane and sugar industries play a big role in Thailand’s economic growth.

In Thailand more than 40-59.9% of Thai adolescents consume soft drinks daily, where studies claimed the correlation between Thai adolescents consuming SSB daily and the obesity rate in Thailand (Taxing on Sugary Drinks, 2017). Viewing SSB as the main cause of the problem, the Thai government introduced the excise sugar tax on SSB.

Meanwhile, the ‘Study on the Suitability and Impact of the Policy on Increasing the Excise Taxation on Non-alcoholic Beverages,’ Dr. Attakrit Patchimnan (2018) had analyzed the outcomes of Thai government’s adoption of excise tax on SSB to promote a better public health, however, the study proved that there is no clear evidence showing a positive result toward overall public health after the increase in SSB tax.

44 countries around the world implemented taxes on SSBs (Prevention Tax and Pricing, 2020). Among the top five world sugar exports, three countries included Thailand implemented the specific excise sugar tax on SSB, where Thailand is the only country with ad valorem tax as well. The introduction of excise tax on SSB in Thailand was due to the drastic growth of diabetes rate and the projected scenario that could highly impact the overall public health and the cost along with it (Srivaniichkorn, 2017).

An increase in SSB tax will cause the government higher cost than benefits in long-term aspect, possible outcomes of increasing SSB tax could lead to a decrease in the amount of investment the SSB industries, investment of manufacturers, importers and other relevant industries – both local and foreigners. Taxing on specific product do not reflect



a wide approach towards the expected outcome, rather taxing any products with exceeding sugar content is the best approach (Francis, Marron, and Rueben, 2016).

Methodology

Qualitative Method with Inductive Approach.

Method

To satisfy the objective of this paper, the qualitative method will be carried out. The qualitative method included an interview of focus group, review of past papers, historical accounts and news, as well as an analysis of past figures and reports.

Subject	Amount	Explanation
Time-Frame	2007-2015 2016-2019	2007-2015: the supporting packages provided for the sugar industry had been introduced. This includes 1) low production cost 2) low transportation cost (especially to China and Indonesia)
Focus Group (Interview)	1. Thai sugarcane farmers (from North, Central, Northeastern, and Eastern parts of Thailand) 2. Thai sugar mills: two major Thai sugar mills	1. Two farmers from the North, two from the Central, three from the Northeastern, and three from the Eastern parts of Thailand. 2. Confidential (mentioned during defense)
Data Collection	1. Historical Accounts: case studies such as the European Regime. 2. Statistical data ranging from 2007-2015 and 2016-2019.	

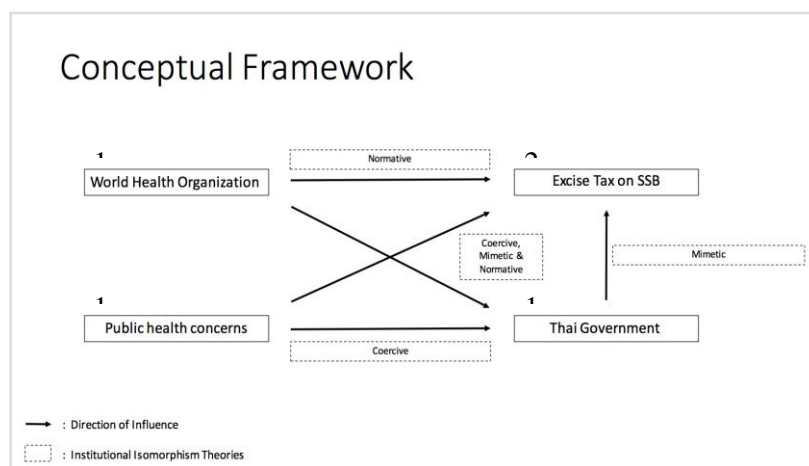
Theoretical Framework

‘Institutional Isomorphism’

According to DiMaggio and Powell (1983) in “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields” (analyzed why various organizational structures and practices are very similar in many certain ways, what are the reasons of these similarities had been explained under the three Institutional Isomorphic processes which included 1) Coercive, 2) Mimetic, and 3) Normative.

These three isomorphisms tend to intertwine depending on certain situations and given different outcomes. Putting things into a clearer perspective, in the case of the sugar tax policy. The intertwined relationship of the three Institutional Isomorphisms as shown in Figure 2.1) Coercive Isomorphism, 2) Mimetic Isomorphism, and 3) Normative Isomorphism occurred in different situations and given different results depending on various aspects, which consisted of the position of which that organizations are in, in this paper, the concept institutional isomorphism are used to explain in terms of countries and the policies. In other words, depending on which position that countries are in, what pressure that certain countries received at a specific time, what forces it had received, or how the professionalization of other countries had influenced that certain country to do something, or to decide on a certain policy

Fig. 2.1 Institutional Isomorphism on Thailand’s Sugar Tax Policy



Supported by the concept of ‘Country-Specific Characteristics’ (Jou & Techakehakij, 2012) in order to seek a clearer explanation of the uniqueness of social, economic, cultural differences of each countries and why one policy cannot apply to all.



In the ‘*International application of sugar-sweetened beverage taxation in obesity reduction: factors that may influence policy effectiveness in country-specific contexts*’ are used. The author highlighted the uncertain influences that could impact the volume of SSB tax in different countries. The three influences raised by the author include 1. Population obesity prevalence, 2. Soft drink consumption levels, and 3. Existing baseline tax rates. In other word, each country has different backgrounds, where the author coined it as ‘country-specific characteristics,’ which same policy doesn’t always result in the same outcome. Such as countries with baseline tax rates that are already high might not directly impact the increase in SSB tax, and thus the increase in SSB tax does not always lead to its original goal in promoting better health while generating revenue.

Results

No evidence on an overall improvement in public health from excise sugar tax policy on SSB. There has been no evidence showing whether or not consumers switch to other substitutes far worse than sugar. Therefore, implementing excise tax on SSB is not as effective because there are no systematic prove showing that the excise tax results a better overall public health. Moreover, it had been stated that excise tax policy to reduce the consumption of SSB should aim for people with high degree of elasticity of demand such as the low income, however, even low incomes can switch to other substitute products and unhealthy/high sugar foods still is available in markets.

An overall Thai Sugarcane industry income and revenue fell caused by supply exceeded demand. While Thailand remains the world's second-largest sugar exporter with 11.04 million metric tonnes, The overall Thai sugar exports as of August 2019 had decreased by 16.7%YoY, the worse revenue fall since 2013, meanwhile, the supply of sugar in Thailand remains high at 14.6 million tonnes as of 2018/2019, a slight decreased by 0.9% from 2017/2018 at 14.7 million metric tonnes. As for the sugar mills in Thailand, in 2016/2017 there were 52 sugar mills, in 2018 2 mills had opened and had a capacity of 24,000 tons of cane per day. According to the USDA many farmers had already shifted from cassava cultivation to sugarcane cultivation with the expectation of getting higher returns, while the Food and Agriculture Organization of the United Nations (FAO) stated that under several unfavorable kinds of weather in Thailand during the growing seasons

and the decline in sugarcane prices, many sugarcane farmers, especially in the Northern parts, had shifted to other cultivation, mainly rice.

Worsen by the Thai government ended the 70:30 practice as Brazil stated that this profit-sharing system is an irregular subsidy which caused the global sugar price to fluctuate due to overproduction, which goes against the WTO (Subsidies Concerning Sugar, 2016). The sudden attack from Brazil against Thailand on the WTO dispute and the unexpected result from the WTO had brought Thailand's sugar industry into a downward position and this directly hits the majority of Thai sugarcane farmers who no longer have the agreed-upon profit sharing system to negotiate with bigger players in the market – sugar mills and high ranking governments.

Majority of sugar farmers' income had fell. According to the interview with 10 sugarcane farmers from the North, Central, Northeastern, and Eastern parts of Thailand claimed that their income from sugarcane had been decreasing for decade, even though there has been aid from both public and private sectors Where the public would subsidize once the situation started to become worse, especially in this age of social media where the government started to act a bit faster due to the fast-spreading of words. However, only three out of ten interviewed farmers stated that they have received such help while the rest said that most subsidies have never really reached them in the amount that has been reported. The financial aid usually fell into the hand of the head of community and did not reach small scale farmers.

Conclusion

Ranging from excise sugar tax policy to response to the WHO's concern over to ended the quota system and the profit-sharing system in response to the WTO's concern solved Thailand's short-term obstacle but the long-term impact then fall upon the overall economy as a whole as well as farmers. By allowing the domestic sugar price to float accordingly to the global market where the price was falling, caused the domestic sugar price to fall to its lowest since the 1970s. Government's short-term compensation was not the answer, because there wasn't enough compensation money of the sugarcane fund to compensate such loss, the hope for positive overall public health from excise sugar tax policy turned out negative either people turned to other substitutes.



Recommendations

Policy Recommendation (WTO's Dispute)

Thailand's immediate response to the WTO's concern by allowing the domestic sugar price to float accordingly to the global sugar price (Chuasuwana, 2018), as well as, ended the quota system due to the pressure from international players when the WTO announced that Thailand's quota system was the root cause of the global sugar price fluctuation (Ramangkul, 2018), and Thailand should ended such profit-sharing system as it violated the WTO's standard. Thailand's immediately ended the long-standing profit-sharing system along with allowed the domestic sugar price to float in order to ease the global tension.

Instead of an immediate action to the International's concern by passing regulation to liberalize the domestic sugar price as according to the global price, the government could take a step back, asking for more time in order to handle the domestic situation such as time to give an advance notice to our domestic sugar farmers and other relevant players within the sugar industry. This can be done by leveraging from the comparative advantages that Thailand has, as Thailand's land and environment are suitable enough to produce up-to-standard quality of agriculture crops, this included sugar, to the up-to-standard quantity for export products to other countries.

Policy Recommendation (WHO's Concern)

On the other hand, Thai government's response to the WHO's concern on the high number of people with diabetes and overweight (5 Year NCDs Prevention, 2017) with the projected future growth that could cost the government a huge burden in terms of health treatment especially when Thailand is moving toward the aging population problem (Helpageasia, 2019). As Thailand is one of the countries that consume the highest amount of sugar per person per day (Kriengsinyos, Chan, and Amarra, 2018), it is reasonable for the government to do something. The decision was then to pass the policy limited the sugar consumption in soft-drinks, by taxing the sugar contained in each drink on the SSB companies. It would be effective if the policy directly benefits the overall public health, unfortunately, there had been no prove showing the positive correlation from excise tax on SSB with a better public health, only the negative impacts towards the economy.



Therefore, to ensure the effectiveness of the policy, the government should not focus on certain products especially when that product tend to play a big impact on the country's economy, but to research and revise other harmful ingredients contains in the ready-to-eat meal, along with controlling the sugar include in foods and drinks. This would ensure the effectiveness of the improvement of overall public health, with the cost of the economy, but with a positive benefits toward the public health - instead of the ineffectiveness of the excise tax sugar policy on SSB which would not result a big improvement toward the public health, and the negative cost it had toward the economy - with the current excise tax policy on SSB

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