

'Preparing ourselves to become an international organization': Thailand Tobacco Monopoly's regional and global strategies

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ABSTRACT

The Thailand Tobacco Monopoly (TTM) controlled the country's tobacco industry from its formation in the 1940s, until the government dropped restrictions on imported cigarettes in the late 1980s in response to pressure from the United States. The TTM has since competed with transnational tobacco companies (TTCs) in a semi-monopoly market in which TTCs have steadily increased their market share. Coupled with a decline in national smoking prevalence, the result of Thailand's stringent tobacco control agenda, the TTM now accounts for a diminishing share of a contracting market. In response, the monopoly has looked to regional trade liberalisation, and proximity to markets with some of the world's highest smoking rates to expand its operations. Expansion strategies have gone largely unrealised however, and the TTM effectively remains a domestic operation. Using TTM publications, market and trade reports, industry publications, tobacco industry documents and other resources, this paper analyses TTM expansion strategies, and the limited extent to which they have been achieved. This inability to expand its operations has left the monopoly potentially vulnerable to global strategies of its transnational competitors. This article is part of the special issue 'The Emergence of Asian Tobacco Companies: Implications for Global Health Governance'.

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Introduction

The Thailand Tobacco Monopoly (TTM) was established in 1939 and over the next 50 years exercised exclusive control over almost all domestic production, distribution and sales of tobacco. A major source of tax revenue for the Ministry of Finance, the monopoly was protected by high tariffs and import restrictions, and by the mid-1980s served a large 'captive market' of 53 million people (Frankel, 1996), with adult smoking prevalence of around 50% among men and 4% among women.

Market dominance came under threat during the 1980s from two external sources. The first was a substantial growth in the illicit tobacco trade, accounting for roughly 3–7% of the market, which flooded the country with foreign brands such as Marlboro (MacKenzie,

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Lee, & LeGresley, 2016). The second was the demands made by the United States Trade Representative (USTR) on Japan, Korea, Taiwan and Thailand in the 1980s to drop restrictions on imported cigarettes or face U.S. trade sanctions (Chaloupka & Laixuthai, 1996). Thailand's challenge to the USTR resulted in arbitration by the General Agreement on Trade and Tariffs (GATT) which ruled in 1990 that import restrictions contravened the country's treaty obligations. Faced with competition from Philip Morris International (PMI) and other transnational tobacco companies (TTCs) the TTM has experienced an initially slow but increasing loss of domestic market share. It retains a dominant position in the Thai market, however, and consistently ranks among the Ministry of Finance's top revenue providers. Since the 1990s, successive Thai governments and senior TTM management have expressed interest in transforming the 'sleepy, bloated state tobacco monopoly' (Frankel, 1996) into a modernised, international operation, potentially through privatisation and moving into foreign markets. An increasingly strong tobacco control agenda, declining domestic sales and regional trade liberalisation, however, raise questions about the monopoly's long-term prospects.

This paper analyses the TTM's response to a changing market, particularly its business strategies for growth and expansion abroad. It first examines the factors that have prompted TTM interest in regional, and even global, expansion, then identifies the development of relevant business strategies, and the extent to which these they have been achieved to date. The analysis suggests that TTM, compared with other Asian tobacco companies, has made distinctly limited progress in extending its operations beyond the domestic market, and this has created an uncertain future in both domestic and overseas markets. In turn, this has made the monopoly potentially vulnerable to the global business strategies of other tobacco corporations, which has potentially significant implications for public health in Thailand and the region.

Background

Until the 1930s, the tobacco industry in Thailand was dominated by foreign (notably British) cigarette brands. To encourage local manufacturing, the government increased tariffs on manufactured imports to 25%, and then again to 59%, resulting in expanded leaf growing and manufacturing locally. In 1939, the Thai government nationalised privately owned local tobacco companies, and placed them under the authority of the Excise Department within the Ministry of Finance. The nationalisation programme included most of the Bangkok-based operations of British American Tobacco (BAT), whose staff were retained to supervise the new state enterprise. By 1940, two-thirds of the tobacco consumed in Thailand was domestically produced (Dixon, 2002).

During the Second World War, Thailand agreed to station Japanese troops within its borders in return for non-occupation (Kingsbury, 2005). As a British company, BAT had little choice but to leave the country and sold its remaining assets, primarily property and leaf production facilities, to the Thai government in 1941 (Cox, 2000). Government tobacco holdings were consolidated under the 1943 Tobacco Act and overseen by the newly formed TTM (2013). BAT staff returned in 1946 to assist with management of the TTM, but the arrangement proved short-lived and the company withdrew its employees in 1949, leaving the Excise Department wholly in control (TTM, 2013). Apart from a small volume of duty-free imported cigarettes sold at Bangkok's Don Meung Airport, the

legal market remained closed to imports over the next three decades and the TTM controlled production, marketing and distribution of tobacco products.

Efforts by TTCs to regain access to the Thai market in the 1980s focused on proposals for joint ventures and licensing agreements (BAT, 1988; Dickson, 1984; Norsworthy, 1988) but these were rejected by the government. Positions within government on the tobacco industry varied however, and in March 1989 the Ministry of Finance announced that restrictions on foreign-made cigarettes would be lifted, following confidential negotiations with U.S. officials (Frankel, 1996). However, opposition from civil society organisations and the National Committee for the Control of Tobacco, a government agency, forced the Ministry of Finance to back down on market liberalisation (Vateesatokit, 2003).

Two months later, PMI, RJ Reynolds (RJR) and Brown & Williamson (B&W) petitioned the USTR to press for market access under the terms of GATT. Thailand's resistance to this action, and referral of the dispute to GATT arbitration has been extensively analysed (Chaloupka & Laixuthai, 1996; Chitanondh, 2001; MacKenzie & Collin, 2012; World Trade Organization, 1990). The GATT ruling required that the Thai market to be opened to foreign companies, creating semi-monopoly in which the TTM, a wholly owned state enterprise, competes with foreign commercial cigarette manufacturers.

There is also evidence that leading foreign brands were available via extensive smuggling networks in which TTCs were complicit in the 1980s and 1990s (Collin, LeGresley, MacKenzie, Lawrence, & Lee, 2004; MacKenzie et al., 2016). Smuggling continued after the lifting of import restrictions in 1990, and subsequent analysis has demonstrated evidence that TTCs strategically coordinated the legal and illegal trade as a means of challenging stronger government regulation and tobacco control measures (Collin et al., 2004; MacKenzie et al., 2016). Estimates of what is, by definition, a criminal activity inevitably vary; Euromonitor International (2015c) suggests that the illicit trade accounts for 2.5–3% of total sales, while an analysis of discrepancies between imports, exports and legal sales between 1992 and 2005 puts the figure for smuggled cigarettes at an average of 9.9% of total sales annually (Pavananunt, 2011).

Methods

Published scholarly literature in public health, business studies and regional studies were searched for material on the Thai tobacco industry using Google Scholar, PubMed and JSTOR. There are a number of detailed studies of TTC activities in Thailand (Chantornvong & McCargo, 2001; Charoenca et al., 2012; MacKenzie & Collin, 2008a; MacKenzie et al., 2016; MacKenzie & Collin, 2008b; MacKenzie & Collin, 2012; MacKenzie, Collin, & Sriwongcharoen, 2007; MacKenzie, Collin, Sriwongcharoen, & Muggli, 2004), but little scholarly analysis of the operations and business strategies of the TTM or the Thai industry as a whole.

We next reviewed reports published by market research firm *Euromonitor*, the media and industry news sources including *Tobacco Journal International*, and *Tobacco Reporter* for information on the Thai tobacco industry and, specifically, the TTM's business strategies since the 1980s. These sources were supplemented with searches of available industry documents in the Truth Tobacco Industry Documents Library dating from the opening of the Thai market in 1990 to the mid-2000s. Search terms included were 'Thai*' and 'TTM', combined using Boolean terms with 'expansion', 'strateg*', 'regional' OR 'global'. A total of

68 documents were reviewed, with 16 documents deemed relevant to this analysis. These provided observations by TTCs of the Thai market, but limited information on TTM expansion plans.

TTM export data are not made publicly available. Alternatively, this paper draws on statistics from the International Trade Centre (ITC) on imports of cigarettes, cigars, cigarillos and roll-your own cigarettes (2015). We also reviewed available English language versions of TTM annual reports from 2004 to 2013 for information on operations, sales including exports, product development and future plans. Finally, the authors consulted with leading figures in the Thai tobacco control community to triangulate information on key trends and issues analysed in this paper. All data from the above sources were compiled and evaluated using the analytical framework set out in Lee and Eckhardt (2016).

Findings

What are the key factors behind TTM's global business strategy?

Since the 1990s, senior management and government officials have regularly advocated for TTM expansion into regional and global markets. The monopoly's *Annual Report 2005*, for example, declared that it was preparing itself 'to become an international organization' that was ready for free trade and competition (TTM, 2005). Statements made by the Ministry of Finance (Chantanusornsiri, 2012, 2013) appear to support expansion proposals; in April 2013 the Deputy Minister of Finance, for example, called for the TTM to 'expand its markets overseas including western countries' either independently or through joint ventures (MCOT, 2013).

Pressure to move into new markets has come from both internal and external sources. A key internal factor is the need for the monopoly to continue as a leading source of government revenue. Despite falling sales volume and declining market share, government income from the TTM has grown continuously since the 1990s, the result of increased production of more expensive, higher-profit margin, mid and premium-range cigarettes, as well as regular tax rate increases. In 2013, TTM total revenue of over US\$2 billion (61,748 million Baht) derived from US\$109.5 million (3331 million Baht) of profits and US\$1.9 billion (58,417 million Baht) of taxes (2013) ranked the monopoly second in terms of assets among state enterprises, and third among revenue providers (Ministry of Finance, 2015).

Another internal impetus has been the decline in tobacco use, in large part the result of increasingly wide-ranging tobacco control measures. The 1990 GATT decision enabled Thailand to enact domestic regulation with the proviso that it was equally applied to the TTM and foreign companies (MacKenzie & Collin, 2012) and this led to enactment of the 1992 Tobacco Products Control Act and the Nonsmokers' Rights Protection Act. This legislation has been reinforced by subsequent regulation that restricts tobacco industry marketing, advertising and point-of-sale promotion; requires graphic health warnings on cigarette packaging; bans smoking in many public spaces; and has instituted regular tax increases that reached 87% of retail price in 2015 (Euromonitor, 2015b; World Health Organization, 2013).

This robust approach has led to a decline in adult smoking prevalence from 26.3% in 1991 to 19.9% in 2014. Smoking rates among adult males has dropped from 49% in 1991 to 39% in 2014; rates for women have declined from 3.8% to 2.1% (Figures 1 and 2). While

high compared to North American and some western European countries, smoking rates among Thai men are comparatively low among Asian countries (World Health Organization, 2015).

Enactment of comprehensive legislation has enabled Thailand to avoid the same degree of aggressive TTC marketing found in Japan, Taiwan and South Korea following their respective decisions to drop market restrictions in the face of USTR demands in the 1980s (Lee, Ling, & Glantz, 2012). It has also constrained the TTM's potential for domestic growth. Successful launching of new brands, for example, typically requires extensive communication, but this opportunity has been blocked by restrictions on advertising and promotion (Euromonitor, 2015d).

While internal factors have been influential, evidence suggests that external factors have been the primary drivers of TTM's global business strategy. Since the 1990 GATT ruling, the TTM has seen a steady erosion of market share, from 99.4% of sales in 1990, to 85% in 2001, and 70.2% in 2015 (Table 1; Figure 3). PMI is the leading TTC in Thailand with a 90% share of import sales (28.6% of total market). Japan International Tobacco (JTI), which purchased RJR's international division in 1999, held less than 1% of the total market in 2013 (Euromonitor, 2015a), while BAT quit the Thai market in 2010 after failing to capture more than 3% (Euromonitor, 2013a).

A further external factor has been regional trade integration, particularly regional tariff reductions among the 10 member states¹ of the ASEAN Economic Community (AEC) established in 2015. In line with goods traded among member states, tobacco products containing at least 40% of leaf grown in member states have a tariff of between 0% and 5% (ASEAN, 2014). Singapore and Brunei aside, all ASEAN countries are involved in leaf production, albeit to varying degrees. Indonesia accounts for 37% of regional cultivation, but the Philippines, Thailand and Vietnam are also major producers (Lian & Dorotheo, 2014).

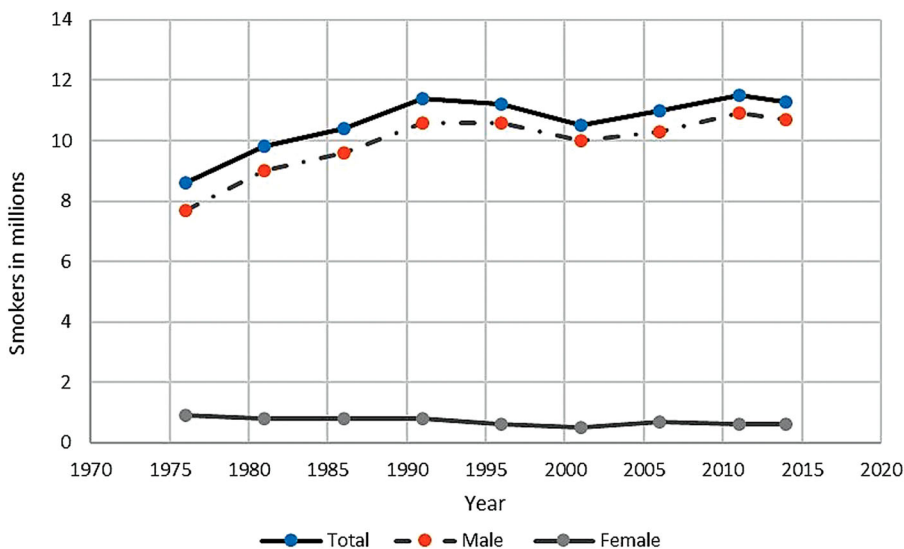


Figure 1. Thailand, number of smokers by gender, selected years. Source: Global Adult Tobacco Survey 2011. http://web.nso.go.th/en/survey/health/cigarettes_11.htm; and NSO 2014 http://web.nso.go.th/en/survey/health/cigarettes_14.htm

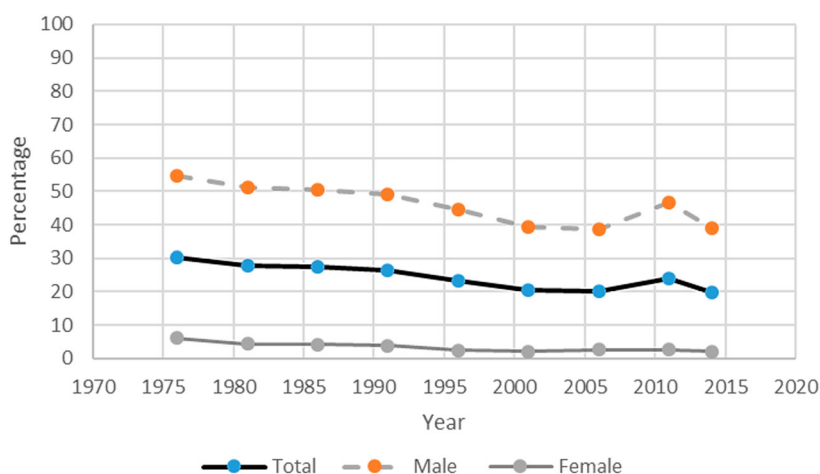


Figure 2. Thailand, percentage of smokers by gender, selected years. Source: Global Adult Tobacco Survey 2011. http://web.nso.go.th/en/survey/health/cigarettes_11.htm; and NSO 2014 http://web.nso.go.th/en/survey/health/cigarettes_14.htm

The TTM should be able to take advantage of the AEC, and has stated its intentions to ‘expand TTM’s market opportunity to neighbouring countries’ (2013) while the acting general manager has described plans for ‘aggressive expansion’ into ASEAN markets, as well as China (TTM pinning hopes on ASEAN, 2014). Yet, its most tangible involvement with regional integration to date has been as a defendant in a trade dispute brought in 2008 by the Philippine government who complained that Thailand’s method of taxation and customs valuation on imported cigarettes constituted discrimination against imported cigarettes produced by Philip Morris Philippines Manufacturing, with the aim of protecting TTM sales (WTO, 2015). The WTO’s 2011 decision in favour of the Philippines held special interest for PMI given Thailand’s role as the primary market for exports of *L&M*,

Table 1. Thailand. Percentage of cigarette sales, TTM and imports, 1985–2015.

Year	Total cigarette sales (millions of sticks)	TTM brands (% of total)	Imported cigarettes (% of total)
1985	29,199	-	n/a
1987	30,925	-	n/a
1989	32,020	-	n/a
1991	38,884	99.4	0.6
1993	42,480	97.0	3.0
1995	43,440	96.8	3.2
1997	48,300	95.9	4.1
1999	36,160	87.0	13.0
2001	34,600	85.0	15.0
2003	38,100	82.0	18.0
2005	43,520	77.7	22.3
2007	41,373	77.4	22.6
2009	41,030	66.2	33.8
2011	45,866	69.2	30.8
2013	48,145	69.3	31.7
2015	49,672	70.2	29.8

Source: Compiled from Thailand Ministry of Public Health (2011); Euromonitor (2013a, 2016).

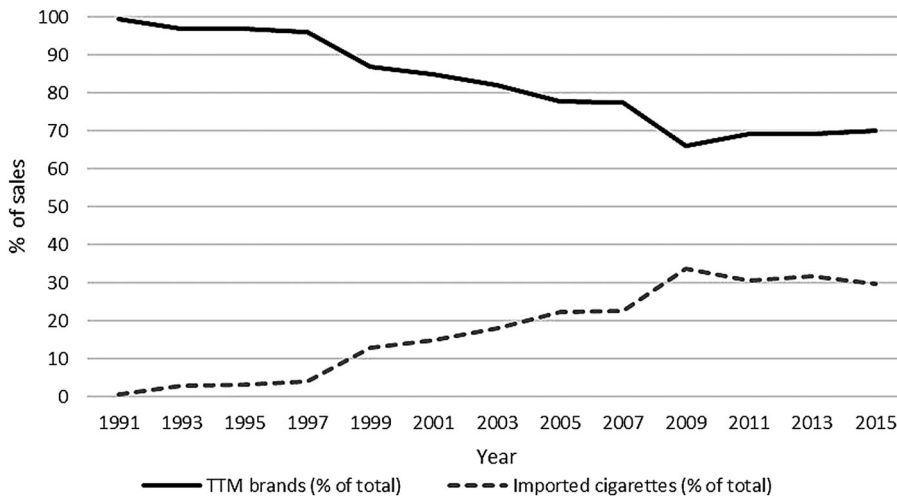


Figure 3. Thailand. Percentage of cigarette sales, TTM and imports, 1985–2015. Source: Compiled from Thailand Ministry of Public Health (2011); Euromonitor (2013a, 2016).

Marlboro and other brands produced by PM Philippines Manufacturing (Egoy, 2010; Hedley, 2010).

As suggested by PMI's connection to the Thai–Philippine trade dispute, regional trade integration is a dual-edged proposition for the TTM. Attracted by some of the world's highest smoking rates, most notably in Indonesia and Vietnam, TTCs have invested heavily in the ASEAN region since trade negotiations commenced in the early 1990s. PMI opened its first Asian tobacco leaf processing plant in 1995 in Malaysia (Assunta & Chapman, 2004). This was followed by a US\$300 million investment in 2003 to establish PM Philippines Manufacturing in Tanauan, Philippines and the 2010 merger with Fortune Tobacco to create the country's largest cigarette company (Hedley, 2010). In 2005, PMI moved into the Indonesian market with the takeover of market leader Sampoerna (With Sampoerna Deal, 2006). For its part, BAT purchased the Indonesian clove cigarette manufacturer *PT Bentoel Internasional* in 2009 for around US\$500 million. Incentives and protection for investors, outlined in the ASEAN Comprehensive Investment Agreement (KPMG, 2014), are likely to encourage further investment in the region's tobacco industry by both regional tobacco companies and TTCs. For the TTM, the implications of regional trade liberalisation are apparent. While it may facilitate development of greater export business for the monopoly, the growing commercial profile of PMI and other transnational companies also represents obstacles to its own expansion plans, and potential impacts on its domestic operations.

Which global business strategies have TTM pursued?

Despite periodic statements of commitment by senior management and high-level government officials to transformation of the TTM, there is limited available information on how such goals are to be achieved. Privatisation of the monopoly has been raised since the 1980s, when the TTM had little incentive to achieve efficiencies, economies of scale, or improved productivity or market growth. Faced with the prospect of market opening

and competition during the USTR dispute, the Thai government signalled that the monopoly may be included in a broad programme of privatisation (Norsworthy, 1988). Some government ministries expressed concerns that concentration of capital and employment in state-owned enterprises (SOEs) had led to over-investment; proliferation of patron-client relationships among the military, government and civil service; and significant trade deficits (Charoenloet, 1989). Although the TTM was one of the more profitable SOEs, this was attributed to a lack of competition and high domestic demand, rather than efficiencies. Selling-off the TTM seemed imminent in 1997 in the wake of the Asian economic crisis. The government's acceptance of a US\$17.2 billion loan from the International Monetary Fund (IMF) included a provision to sell several SOEs including the TTM, that was intended to strengthen economic efficiency and the ability of state-dominated enterprises to attract capital, management knowledge and technology (Rondinelli & Priebjivat, 2000, p. 628).

Privatisation proposals were, however, successfully challenged by the public health community which argued that it would make the tobacco industry in Thailand more efficient and lead to more aggressive marketing and, in turn, higher tobacco consumption (Chitanondh, 1999). Health advocates were joined by Thai tobacco growers and workers who expressed fears that privatisation would reduce local employment (Chantornvong & McCargo, 2001). An initial public offering of TTM shares was scheduled for November 2001, the recovery of the Thai economy (Vateesatokit, Hughes, & Ritthiphakdee, 2000) combined with broad opposition to indefinitely postpone privatisation proposals in 2002 (Bangkok Post, 2002). It was not until 2014 that the subject was raised again, when the military-installed National Council for Peace and Order administration announced it would revisit privatisation of the country's 56 SOEs as part of its economic planning (Khanthong, 2014). The TTM has responded by requesting permission from the Ministry of Finance to reorganise as a private venture, although few details are available at the time of writing on what this process will entail. (TTM gets ready for rivals, 2014).

For TTCs, privatisation has held out the promise of surmounting the Thai government's ban on manufacturing cigarettes by companies other than the TTM, and the 60% duty on imported cigarettes. Amid IMF pressure for the Thai government to sell off SOEs, the TTM initiated joint venture negotiations with PMI, RJR and BAT in the late 1990s. The most likely partner was PMI, which was already pursuing a regional strategy that included manufacturing facilities in the Philippines, Indonesia and Malaysia. With the exception of a small volume shipped from Singapore, all PMI brands sold in Thailand were produced in the Philippines (Euromonitor, 2015e), and joint venture would have enabled PMI to reinforce its dominant market position among TTCs in Thailand, while also strengthening its regional manufacturing capacity. For the TTM, a partnership would have provided access to PMI's regional and even global distribution chain (Hedley, 2010).

Other TTCs have also shown interest. Prior to leaving the market in 2013, BAT made unsuccessful overtures to the government for a joint venture as a means of competing with rival TTCs (MacKenzie et al., 2016). JTI, concerned about falling demand at home and in some of its key overseas markets, sought a partnership with the TTM that was aimed at expanding its presence in southeast Asia (Hedley, 2014). The Imperial Tobacco Group has identified Laos (where it controls a 90% market share), Cambodia and Vietnam as key growth markets (Imperial Tobacco, 2015), and may see a future joint venture

partnership with the TTM as a way to better serve these markets. To date, no joint venture has been agreed, although media reports suggest the TTM continues to pursue such plans (TTM gets ready for rivals, 2014).

While progress on privatisation and joint ventures appears to have stalled, the TTM has undertaken internal restructuring and rationalisation of its operations. Between 2004 and 2012, employee numbers were reduced from 4583 to 2866 (TTM, 2004, 2013). At senior management level, which previously provided sinecures for retired military personnel and political appointees (Downham, 1989; Ross, 1989), annual reports suggest that education, training and experience has begun to play a greater role in appointments (TTM, 2013). Management positions, however, remain the preserve of Thai nationals, and there are no indications that foreign business expertise has been sought for senior levels.

The TTM has also sought to modernise its production facilities but construction of a new corporate headquarters and factory in Rojana Industrial Park, Ayutthaya Province has been slow. Plans received initial cabinet approval in 1991 but have been repeatedly delayed and in 2013, the TTM could only report that construction of its new plant had 'progressed significantly' and would be completed by 2017 (TTM, 2013). The 16% cut to the construction budget by the government in 2014 was likely due to the country's economic downturn, exacerbated by the military coup that year (Economist, 2014), as well as waning official commitment to the project (TTM gets ready for rivals, 2014).

Product development has not been a major part of TTM strategy to date. The monopoly produces five export brands, but industry analysts suggest none are capable of competing globally in their current form and supplying export markets will require significant product refinements in terms of taste, packaging and distribution (Euromonitor, 2015d). Tar levels present a particular obstacle to expansion (Euromonitor, 2015d). Thailand's domestic market is dominated (73% of sales volume) by high-tar cigarettes that contain 12–24 milligrams (mg) of tar (Euromonitor, 2015a); popular U.S. brands, by comparison, generally contain 12 mg (U.S. Centers for Disease Control, 2016). In 2013, the monopoly announced a gradual reduction in tar levels by 2018 'without affecting consumers' perception' (TTM, 2013, p. 67), but whether this will be applied across all brands or just a selected number is not clear. Similarly, plans for a new export brand (TTM pinning hopes on ASEAN, 2014) announced in 2014, did not indicate whether it would be aimed at expatriot Thais seeking high-tar cigarettes, or a lower-tar brand with broader export market appeal.

How globalised is TTM to date?

The available data reviewed in this paper suggests that, despite regular public pronouncements of regional and global expansion plans, the TTM has made little progress in moving beyond its domestic market. According to the ITC, 28 countries imported Thai tobacco products in 2014, with five regional markets – Vietnam (31%), Laos (24%), Myanmar (16%), Malaysia (13%) and the Philippines (8.5%) – accounting for 92.5% (Table 2)

Around 35 million sticks of two high-tar (*Gold City*, *Krongthip*), and one mid-tar (*Falling Rain*), brands were exported in 2013, representing around 0.1% of total TTM production (32.8 billion sticks). Although this represents a 44% and 117% increase in export volume and value respectively over the previous year (TTM, 2013), year-on-year export

Table 2. Markets for tobacco products exported by Thailand: 2010–2014.

Importer	Exported value (US\$000)				
	2010	2011	2012	2013	2014
Viet Nam	5451	3290	6458	6130	8288
Lao PDR	2332	1533	1604	1344	6473
Myanmar	952	1897	4404	5414	4207
Malaysia	4215	2198	6231	3635	3542
Philippines	55	1165	2507	4131	2266
Singapore	511	558	251	2267	1079
Cambodia	286	320	273	414	315
Hong Kong, China	0	0	70	158	159
Republic of Korea	0	0	86	172	157
Israel	59	37	0	62	62
Taipei, Chinese	546	2711	2880	375	22
China	1721	1306	119	543	1
Other	1627	854	1396	827	1
World	17,756	15,866	26,253	25,472	26,571

Source: Compiled from ITC (2015).

sales have been volatile, for example, dropping by 65% between 2008 and 2009, and by 40% between 2010 and 2011 (Table 3).

Beyond Southeast Asia, there is little evidence that longstanding plans to target markets in Eastern Europe (Deboonme, 2008), particularly Poland and Russia (Euromonitor, 2013b), have been achieved. Rather, TTM strategy appears to follow fluctuating levels of Thai migrant labour (Euromonitor, 2013b; TTM gets ready for rivals, 2014), as suggested by exports to the United Arab Emirates (UAE) (Migration News, 2012). A total of US\$1,081,000 worth of cigarettes were exported to the UAE in 2010, but this figure declined sharply to US\$711,000 in 2011, recovering to US\$1,077,000 in 2012, and then falling again to US\$4,425,000 in 2013 (ITC, 2015), seemingly reflecting the movement of migrant labour.

Discussion

Thailand's economic development and growth over the past three decades, like other emerging Asian economies, has been driven by trade liberalisation and foreign direct

Table 3. TTM Export volumes (millions of sticks), 2001–2013.

Year	Exports volume: million cigarettes	Increase/(decrease) on previous year		Sales (Baht)
		Million cigarettes	Percentage increase	
2001	28.37	(39.93)	(58.46)	n/a
2002	20.40	(7.97)	(28.09)	n/a
2003	19.38	(1.02)	(5.00)	7,366,182
2004	19.34	(0.04)	(0.21)	6,866,784
2005	10.70	(8.64)	(44.67)	3,809,200
2006	19.90	9.20	85.98	7,694,850
2007	10.20	(9.70)	(48.74)	4,038,000
2008	33.30	23.10	226.47	12,010,193
2009	11.64	(21.66)	(65.05)	4,726,757
2010	32.00	20.36	174.91	13,243,830
2011	18.89	(13.31)	(40.97)	8,913,005
2012	24.70	5.81	30.76	14,829,049
2013	35.64	10.94	44.29	30,330,369

Source: Compiled from TTM, *Annual Reports*, 2004–2013.

investment. Given that exports account for around 75% of the country's gross domestic product (World Bank, 2015), the TTM's low level of export business represents something of an anomaly.

The key impediment to the TTM's expansion strategies has largely the result of government uncertainty and indecision regarding the monopoly's future. This reflects a broader official ineffectiveness that is, to a considerable degree, the result of ongoing political instability which can affect policy formation (Economist, 2014). Since 1932 when the absolute monarchy was abolished, Thailand has witnessed 25 general elections and 19 coups d'état attempts, 12 of them successful. Government ambivalence on the TTM has resulted in mixed signals about the monopoly's future, yet it remains among the most reliable of SOEs, a significant source of government revenue and, according to the monopoly's own publicity, of 'national economic and social stability' (2013).

TTM profits are predicted to grow in the short term, based on increased production of higher-priced, mid-range and premium cigarettes, which yield higher margins. This, coupled with increased tobacco tax revenues, will ensure the monopoly's contribution to government revenue will remain dependable in the immediate future, yet this status quo is unlikely to continue over the longer term. The steady loss of market share to TTCs, particularly PMI, and extension of tobacco control regulation are expected to continue, and this trend may be punctuated by sharp declines in sales and total revenue, such as those experienced during economic downturns or political turmoil. Such scenarios serve as a reminder of the precariousness of the TTM's continued dependence on the domestic market. The continued integration of the Southeast Asian region under the AEC, which TTCs are adapting to far more strategically than the TTM has been able to, further underlines the risks associated with the TTM's current business strategy.

Further, two other regional trade agreements may impact the regional commercial environment. The Trans Pacific Partnership (TPP) was signed in February 2016, and ratification talks have begun in the 12 Pacific Rim signatory states,² which include five Asian countries but excludes China. Negotiations to establish the Regional Comprehensive Economic Partnership (RCEP) commenced in 2012 between the 10-member Association of South East Asian Nations³ and six states with which ASEAN has existing free trade agreements, Australia, China, India, Japan, New Zealand and South Korea.

Crucially, both agreements include investor-state dispute settlement provisions (ISDS) mechanisms which allow corporations to directly sue governments for compensation regarding a perceived breach of treaty. The concerns of the public health community are that the ISDS system can be used by processed food, soft drink, alcohol and tobacco industries to challenge national policy on advertising, marketing, pricing and labelling on the grounds they impede commercial rights of investors (Gleeson & Friel, 2013). PMI has notably brought ISDS action against Uruguay in 2010 over requirements that health warnings cover 80% of cigarette packs, and in 2011 against Australia's plain packaging legislation.

That both actions were unsuccessful does not diminish the potential threat posed to health policy by ISDS provisions. First, PMI's action against Australia was decided on a technicality, not the merits of the tobacco company's arguments that plain packaging effectively constituted a ban on trademarks that breached foreign investment provisions of its 1993 bilateral investment agreement with Hong Kong. Specifically, the arbitration tribunal found that because Philip Morris Asia had acquired Philip Morris (Australia)

Limited (nearly a year after the government publicly announced its plain packaging plans), for the purpose of initiating challenging Australia's tobacco plain packaging laws, it had no jurisdiction to hear PMI's claim (Australian Government, 2016).

Second, corporate lawsuits, even if unsuccessful, can create 'regulatory chill', a situation in which governments are 'unwilling or unable to risk expensive litigation regarding their policy decisions' (Thow et al., 2015), and this is particularly true of low and middle-income nations. Uruguay has acknowledged that it would have dropped its legislation and settled with PMI if the Bloomberg Philanthropies foundation not paid the country's legal costs, while Namibia, Gabon, Togo and Uganda have received warnings from the tobacco industry that their laws contravene international treaties and could invoke industry challenges (Tavernise, 2013).

Much has been made of the tobacco 'carve-out' in the TPP. While this makes it the first trade deal involving the U.S. that exempts tobacco control measures from investor lawsuits (Bollyky, 2016), it is significantly limited. The carve-out is optional, and parties to the TPP may come under pressure not to employ its provision; it does not apply to state-to-state disputes; and it does not apply to tobacco leaf (Hirono, Gleeson, & Freeman, 2016). More broadly, critics of the TPP argue that tobacco carve-out underlines the inherent threat the ISDS poses to broader public health and environmental policy (Bollyky, 2016).

What RCEP negotiations involve is less certain. Talks have been even more secretive than those around the Trans-Pacific Partnership (TTP), but leaked documents indicate that protection of intellectual property rights, beyond those of many of the parties to the negotiations, have been proposed. This appears to be, so far, aimed at increasing protection of drug patents and associated clinical data (Townsend, Gleeson, & Lopert, 2015). It is worth noting, however, that tobacco industry claims that plain packaging legislation prohibits use of trademarks, and thus violated their intellectual property rights, informed their legal action against Uruguay and Australia.

How the TTM responds in time to these diverse pressures and opportunities will have important implications for public health. Thailand has been among the strongest supporters of the World Health Organization's Framework Convention on Tobacco Control (FCTC) process (World Health Organization, 2014). The separate administration of public health and economic policy means that the country's model implementation of the treaty has so far not been compromised by the TTM's valued status as a major revenue-producing SOE (Hogg, Hill, & Collin, 2015). However, as domestic market share and smoking prevalence continue to decline, pressures to privatise or agree a joint venture could put the two policy domains more directly in conflict. An increased role for TTCs in the Thai tobacco industry could potentially undermine public health efforts given ongoing tobacco industry challenges to national legislation since market opening in 1990 (Lieberman, 2013; MacKenzie & Collin, 2008, 2012).

A joint venture would also lead to improvements in production, distribution and promotion, as well as regional economies of scale, aimed at increasing consumption. Finally, if the TTM were to become a regional production centre, this would increase Thai-produced exports to the 27 million smokers in the neighbouring markets of Cambodia, Laos, Vietnam and Myanmar, all of which currently have considerably weaker tobacco control regulations (Lian & Dorotheo, 2014). Time, however, is a significant factor in such deliberations, and further government delays could lead to a situation in which the TTM is excluded from the regional market while simultaneously facing growing

pressure at home from TTCs and, potentially, from emerging Asian tobacco companies seeking to take advantage of AEC-related tariff reductions.

Conclusion

The TTM can best be described as a domestic tobacco company that harbours unrealised ambitions of regional, and even global, expansion to compensate for an eroding share of a declining home market. Expansion beyond the domestic market has been limited to small and fluctuating levels of exports, while negotiations for joint ventures have failed to progress, and modernisation plans have been protracted. TTM reliance on the domestic market will become increasingly untenable, and decisions taken by the Thai government will need to balance internal and external pressures for change, and the related risks to a reliable and significant source of government revenue. How the government responds may also have potentially significant implications for public health in Thailand and the region.

Notes

1. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
2. Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States.
3. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

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