Contention 2 is Smoke on the Water

Chinese tobacco companies are looking to expand.

Hefler [of the BMJ 2019]

CNTC, as a key state-owned enterprise, has indicated willingness to be a leader in the [Belt and road] initiative back in 2015, when then-director Ling Chengxing emphasised the importance of using the opportunity of "the national implementation of BRI…to accelerate industry's 'Go global' development". **In 2017, BRI was officially adopted by the Chinese tobacco industry, as the State Tobacco Monopoly Administration issued a "Work plan on the tobacco industry participating in One Belt One Road** to implement 'Go Global' development".

Specifically, the Work plan calls for market expansion in BRI countries and support for the construction of off-shore production facilities. **BRI countries,** especially those in Central Asia and the Middle East, **are seen as particularly attractive for market expansion, as they remain relatively underserved and not yet dominated by the transnational tobacco companies**. With these countries accounting for 54.1% of global tobacco sales, the potential for growth is enormous. In line with past statements, CNTC anticipates the introduction of its products via Chinese workers, who will no doubt be recruited to work on infrastructure projects, and an expected influx of Chinese tourists, especially as China flexes its soft power by negotiating more favourable visa requirements. According to industry statements, CNTC's **market expansion is now focused on BRI's emerging and growth markets,** and includes monitoring for investment and joint venture opportunities, and market development

The way these companies are looking to expand is through Mergers and Acquisitons

https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5553430/

It is expected that CNTC will soon progress to M&As of small and medium-sized foreign tobacco companies, mimicking TTCs such as JTI and Imperial Tobacco (Qing, 2015). For example, there were negotiations between Hongta Group and Donskoy Tabak in 2012 for Hongta's purchase of 0.5% share of Russia's largest national tobacco manufacturer. This would permit entry of Hongta brands into the Russian market, produced and distributed by Donskoy Tabak (Anon, 2012).

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Fang of the NCBI in 2017 explains

Using indicators set out in Lee and Eckhardt (2016), and Lee et al. (2016), for which there is available data, CNTC appears poised to 'go global', but its global business strategy is unlikely to follow the pattern of existing[Transnational Tobacco Companies] TTCs. Most notable has been the domestic restructuring of the industry, as a whole, and of individual firms. There has been substantial consolidation, to transform a highly fragmented and inefficient industry, into fewer, larger and more competitive firms with clearer geographical (national, provincial and municipal), functional (manufacturing, sales and administration) and regulatory (central and provincial STMAs) delineation. Supported by favourable government policies and substantial resources, the restructured domestic industry has achieved greater economies of scale. Moreover, while consolidating to compete with TTCs, the Chinese industry has been reconfigured in ways that minimise competition among domestic firms. The resultant structure potentially dwarfs existing TTCs and serves as a springboard for globalisation. Fourth, **CNTC** is a 'strategic asset seeker', as it **monitors foreign markets seeking investment opportunities for business growth through M&A.** The CNTC's globalisation efforts are expected to intensify.

Protectionist measures have stopped these M&A's

Xu 19 of Deloitte writes Although Beijing's capital controls and China's mounting debt load crimped Chinese foreign investment last year, **heightened scrutiny by regulators of Chinese acquisitions** —a move that **has been criticized as antithetical to free market principles** —was a major factor behind the drop in investment, **with a large number of deals cancelled or blocked**

However, joining the BRI would remove these protectionist measures

Xu continues

The removal of such protectionist measures is one of the core aims of the BRI. It is therefore imperative that the Initiative **[If the BRI were to] extend** deeper **into** the more advanced countries of **Europe,** as **this should reverse the short-lived dip in Chinese investment into the continent,**16 especially as Chinese companies tighten their focus on choosing investments more judiciously.

China lacks the ability to expand to new markets

TobaccoAsia 2017 says

The aforesaid efforts made by China's tobacco industry prove that it has always been striving to "go global". Presently, the domestic tobacco market is saturated, how to "go global" and realize development of international markets is what deserves the greatest attention. In this respect, **the tobacco industry of China,** however**, still seriously lacks pertinent** ideas**, experience, know-how, and effective measure**s. Under the Belt and Road initiative, the endeavor of the industry to "go global" will be of even greater significance, while global markets will be able to offer China greater room for growth.

But the EU gives them the experience needed to expand

https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_12.pdf

39,167CNTC is projected to achieve 50% of global market share by 2050. Currently, the company exports less than 1% of the 2.27 trillion cigarettes it produces,168 but observers have stated that CNTC aims to expand its international presence using a three-part strategy.163 First, CNTC will harness its production efficiency—factories that can produce 400 packs per minute—and export more cigarettes made in China.162 Second, it will establish production of Chinese brands abroad. The first factories are in Romania, Cambodia, Lao People's Democratic Republic, and Myanmar.163 Third, it will license its brands for production and sale by other companies abroad.163 To implement this strategy, CNTC is recruiting support from other global tobacco companies: JTI, Imperial, and PMI. Under this arrangement, **multinational companies gain access to the Chinese market in exchange for their expertise in technology, management, marketing, and distribution**

https://www.tobaccofreekids.org/assets/global/pdfs/en/TI_Profile_China.pdf

Currently, less than 1% of the 2.27 trillion cigarettes produced by CNTC is exported each year.7CNTC hopes to increase its share of the global market, in part through strategic partnerships with transnational tobacco companies, such as PMI. The company leverages access to the Chinese market to build **such partnerships, giv[e]**ing **CNTC more channels to sell their products overseas in emerging markets such as Eastern Europe and Latin America**

The impact is clouding the future of the developing world

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Since the 1990s, the four leading transnational tobacco manufacturers, by means of mergers and acquisitions, realized global expansion and distribution in regions around the world except China, and have so far taken a 70% stake in the global cigarette market. Yet, **around the world, there are still cigarette markets to the tune of** 22 million cases **(110 billion cigarettes) yet to be developed,** and there are upstream and downstream markets in the industrial chain that need to be improved, in addition to rapid development of new types of tobacco products. All such developments mean potential favorable market opportunities for the Chinese tobacco industry to "go global".

Nikogosian BMJ 2018

But there are also risks. From a public health point of view, **countries with weaker health systems may not be able to cope with the health effects of** such vast infrastructure projects, an influx of trade, and increased cross border movement, unless health protection and promotion is adequately embedded in the initiative's agenda. There are also risks around the spread of infectious diseases in countries with lower vaccination rates, **freer supply of** products like **tobacco** and unhealthy food, and environmental and road safety concerns. Moreover, the rapid development of new infrastructures, without sufficient consideration of the effect on health, may escalate already existing health gaps. Risks will also be associated with macro effects, such as the level of protection by employment laws and the health effects of increased debt.
From a governance point of view, **the scarcity of international agreements specific to the Belt and Road Initiative may disrupt the expected positive effects on global health governance**.

University of Massachusetts 2007 -Inhaling from just 1 cigarette can lead to nicotine addiction

ACS- Smoking not only causes cancer. It can damage nearly every organ in the body

MedicalNews 2013

Death from all causes is at least 3X higher for smokers than for nonsmokers with at least two thirds of all deaths in smokers directly related to smoking

Potential UQ:

Increased EU investment into CN tobacco

Legitimacy?

EU enables decreased border regs somehow

Murphy F. Rise of a new superpower: health and China's global trade ambitions

^is the link ev for cinco p sure

https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_12.pdf

164**In order to support its premium brands, CNTC is developing an international supply chain, whichincludes FDI.** In 2013 CNTC created a subsidiary in North Carolina, China Tobacco International of North America, to manage its contract relations with U.S. tobacco farmers.40 Tobacco remains the largest cash crop in North Carolina; exports grew by 10% in 2013.166In 2014, CNTC's Brazilian subsidiary created a joint venture with Alliance One to grow tobacco leaf for export to China

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https://www.brookings.edu/wp-content/uploads/2016/06/25-china-tobacco-li.pdf

Stuff about mergers

https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5553430/

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If even partially realised, the global ambitions of the Chinese tobacco industry will have profound impacts for public health. **The Chinese industry is advantaged by sheer size, weak domestic regulation and government support for overseas expansion**. **If successful, this will lead to increased global competition on price, new products and intensified marketing, all resulting in increased tobacco consumption**. Beyond the WTO, there is much uncertainty to how tobacco will be handled in key negotiations for major trade and investment agreements such as the Trans Pacific Partnership.

Using indicators set out in Lee and Eckhardt (2016), and Lee et al. (2016), for which there is available data, **CNTC appears poised to 'go global', but its global business strategy is unlikely to follow the pattern of existing TTCs.** Most notable has been the domestic restructuring of the industry, as a whole, and of individual firms. **There has been substantial consolidation**, to transform a highly fragmented and inefficient industry, **into fewer, larger and more competitive firms with clearer geographical** (national, provincial and municipal), functional (manufacturing, sales and administration) and regulatory (central and provincial STMAs) **delineation**. Supported by favourable government policies and substantial resources, the restructured domestic industry has achieved greater economies of scale. Moreover, while consolidating to compete with TTCs, the Chinese industry has been reconfigured in ways that minimise competition among domestic firms.

Fourth, CNTC is a 'strategic asset seeker', as it monitors foreign markets seeking investment opportunities for business growth through M&A. The CNTC's globalisation efforts are expected to intensify.

https://www.who.int/tobacco/media/en/HATAI2000X.pdf

Sale of some part or the whole of a cigarette transnational to another cause a great socio-economic impact on a wide scale, depending on the size of the transaction

https://www.scmp.com/comment/letters/article/3008575/what-will-chinas-belt-and-road-mean-tobacco-trade-and-public-health

Of particular concern is the opportunity the belt and road scheme provides for marketing and exporting of Chinese tobacco products along its route. **As the domestic cigarette market in China becomes saturated, China's tobacco industry has for some time been quietly going global, establishing dozens of overseas enterprises. The belt and road plan will benefit and accelerate the exports of China's tobacco industry.** The industry has said so itself in TobaccoChina Online: "China's tobacco industry looks forward to enjoying favourable conditions in its drive to 'go global', due to the implementation of the .... Belt and Road."

https://www.researchgate.net/publication/309146649_The_China_National_Tobacco_Corporation_From_domestic_to_global_dragon

Chinese exports, as a proportion of total production, remain relatively small but risingsince 2004, from 4.35% to 5.08% by 2013. However, by volume this represents a 60%increase from 16.3 to 26 billion sticks (STMA, 2005,2014), surpassing Korean companyKT&G to become the world's fifth largest exporter (Zhang & Zhang, 2013). Exportvalue (unadjusted) has also increased, from US$100 million in 1999 to US$500 millionin 2013 (Figure 4). **In 2015, a link between the 'One Belt, One Road'and 'Go Global'strat-egy was announced to improve CNTC's access foreign markets (Qing, 2015).** This initiat-ive refers to the extension of the so-called Silk Road Economic Belt, linking western Chinawith Europe through Central Asia, to the new Maritime Silk Road from China's southerncoast to Europe via North Africa and Southeast Asia (Knowler, 2015)

http://iththailand.net/upload/BRI_and_health_and_beyond_-_conf_doc.pdf

There may be opportunity for marketing and exporting of Chinese tobacco products along the New Silk Road(13). **As China's tobacco industry has been striking for going global, it is believed that the Belt and Road Initiative will benefit China's tobacco industry** as it will be conducive to building an interest-sharing value chain, improving the distribution of tobacco resources in China.The BRI will also promote the development of new channels to realize export-oriented growth and systemic transformation

Hefler of the BMJ 2019

CNTC, as a key state-owned enterprise, has indicated willingness to be a leader in the initiative back in 2015, when then-director Ling Chengxing emphasised the importance of using the opportunity of "the national implementation of BRI…to accelerate industry's 'Go global' development". **In 2017, BRI was officially adopted by the Chinese tobacco industry, as the State Tobacco Monopoly Administration issued a "Work plan on the tobacco industry participating in One Belt One Road** to implement 'Go Global' development".

Specifically, the Work plan calls for market expansion in BRI countries and support for the construction of off-shore production facilities. **BRI countries, especially those in Central Asia and the Middle East, are seen as particularly attractive for market expansion, as they remain relatively underserved and not yet dominated by the transnational tobacco companies**. With these countries accounting for 54.1% of global tobacco sales, the potential for growth is enormous. In line with past statements, CNTC anticipates the introduction of its products via Chinese workers, who will no doubt be recruited to work on infrastructure projects, and an expected influx of Chinese tourists, especially as China flexes its soft power by negotiating more favourable visa requirements. **According to industry statements, CNTC's market expansion is now**

focused on BRI's emerging and growth markets, and includes monitoring for investment and joint venture opportunities, and market development

Domestic smoking rates in China declined for the first time in decades following 2015 tax increases, fueling CNTC's international push. The unprecedented public listing of CNTC's international arm – China Tobacco International – on the Hong Kong stock exchange in June 2019, is the strongest indicator to date of the industry's globalisation ambitions. The move is expected to fund CNTC's overseas ventures, as it aggressively expands into unknown markets. **It appears that China's push for political and economic dominance in the region via the BRI may need to come with a health warming.**

Nikogosian BMJ 2018

But **there are** also **risks**. From a public health point of view, **countries with weaker health systems may not be able to cope with the health effects of** such vast infrastructure projects, an influx of trade, and increased cross border movement, unless health protection and promotion is adequately embedded in the initiative's agenda. There are also risks around the spread of infectious diseases in countries with lower vaccination rates, **freer supply of** products like **tobacco** and unhealthy food, and environmental and road safety concerns. Moreover, the rapid development of new infrastructures, without sufficient consideration of the effect on health, may escalate already existing health gaps. Risks will also be associated with macro effects, such as the level of protection by employment laws and the health effects of increased debt. From a governance point of view, **the scarcity of international agreements specific to the Belt and Road Initiative may disrupt the expected positive effects on global health governance**. We should make use of prominent global and regional health agreements and processes that participating countries are already members of, such as global and regional treaties (including WHO's Framework Convention on Tobacco Control and Protocol on Water and Health), International Health Regulations, and the European environment and health process. Further, "club" positions on topics such as tobacco, occupational health and safety, and trade and investment agreements, may slow and potentially impede global health negotiations. **Risks will** also **be associated with potential divergence from national and global agendas, such as on non-communicable diseases, a major global priority that was not specifically referred to in the recent Health Silk Road** Communiqué.

[2]

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MedicalNews 2013

Death from all causes is at least 3X higher for smokers than for nonsmokers with at least two thirds of all deaths in smokers directly related to smoking

https://www.tobaccoasia.com/features/belt-and-road-initiative-from-china-to-the-world/

For China's tobacco industry, construction of the Belt and Road will be conducive to building an interest-sharing value chain, improving the distribution of tobacco resources in China, and forming a mutually beneficial structure and cooperation network. More significantly, it will promote the development of new channels to realize export-oriented growth and systemic transformation by means of internationalized construction, and will provide the industry with a new path leading to global development.

Since the 1990s, the four leading transnational tobacco manufacturers, by means of mergers and acquisitions, realized global expansion and distribution in regions around the world except China, and have so far taken a 70% stake in the global cigarette market. Yet, around the world, there are still cigarette markets to the tune of 22 million cases (110 billion cigarettes) yet to be developed, and there are upstream and downstream markets in the industrial chain that need to be improved, in addition to rapid development of new types of tobacco products. All such developments mean potential favorable market opportunities for the Chinese tobacco industry to “go global”.

The aforesaid efforts made by China’s tobacco industry prove that it has always been striving to “go global”. Presently, the domestic tobacco market is saturated, how to “go global” and realize development of international markets is what deserves the greatest attention. **In this respect, the tobacco industry of China, however, still seriously lacks pertinent ideas, experience, know-how, and effective measures.** Under the Belt and Road initiative, the endeavor of the industry to “go global” will be of even greater significance, while global markets will be able to offer China greater room for growth.

Kelley Lee, 6-29-2016, "The globalisation strategies of five Asian tobacco companies: a comparative analysis and implications for global health governance," Taylor & Francis, https://www.tandfonline.com/doi/full/10.1080/17441692.2016.1273370

Why does tobacco industry globalisation matter to global public health? Tobacco products, regardless of where they are produced and whether they are targeted at domestic or foreign markets, invariably create adverse public health impacts. **However, the emergence of new TTCs, as this special issue suggests, will mean fiercer competition, with tobacco companies jockeying for market share in an increasingly globalised industry. Economic theory suggests that increased competition pushes firms to seek greater efficiencies, improve productivity and gain advantage through product innovation. This creates downward pressures on price and intensified marketing (**Taylor, Chaloupka, Gundon, & Corbett, 2000

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https://scholar.google.com/scholar?cites=16731973355050038445&as_sdt=5,44&sciodt=0,44&hl=en

Extra Card: South CHina

https://books.google.com/books?id=JcdEBgAAQBAJ&pg=PA108&lpg=PA108&dq=us+ttc+south+korea+increase+smoking+rate&source=bl&ots=5aLIheAcJh&sig=ACfU3U18Z1IZgDgsJaBkKrrl0PcZt4Ygmw&hl=en&sa=X&ved=2ahUKEwiG1eLO_L_kAhUGLa0KHeg_DHUQ6AEwGHoECAgQAQ#v=onepage&q=us%20ttc%20south%20korea%20increase%20smoking%20rate&f=false

The opening of Asian cigarette markets to western-based transnational tobacco companies has been particularly significant in the development of the industry and in stimulating tobacco consumption. The previously closed markets of Japan, Taiwan, South Korea and Thailand, for example, were opened to TTC competition between 1986 and 1990 following pressure from the USA that included the threat of retaliatory trade sanctions. It has been estimated that by 1991 per capita tobacco consumption increased by an average of 10 per cent across these four countries (Chaloupka and Laixuthai 1996). It is important to note the inequitable impacts of trade liberalization on tobacco use. Trade liberalization has led to increased consumption of tobacco overall but, while it has no substantive effect on high-income countries, it has had a big impact on smoking in low-income countries and a significant, if smaller, impact on middle-income countries (Taylor *et al.* 2000).

FL: Should've already happened

Fang 16 for NCBI

Using indicators set out in Lee and Eckhardt (2016), and Lee et al. (2016), for which there is available data, **CNTC [Chinese National Tobacco Corporation] appears poised to 'go global', but its global business strategy is unlikely to follow the pattern of existing [Transnational Tobacco Companies]** TTCs. Most **notable has been the domestic restructuring of the industry,** as a whole, and of individual firms. T**here has been substantial consolidation, to transform a highly fragmented and inefficient industry,** into fewer, **larger and more competitive firms with** clearer **geographical** (national, provincial and municipal)**, functional** (manufacturing, sales and administration) **and regulatory (central and provincial STMAs) delineation.** Supported by favourable government policies and substantial resources, **the restructured domestic industry has achieved greater economies of scale**. Moreover, while consolidating to compete with TTCs, the Chinese industry has been reconfigured in ways that minimise competition among domestic firms.

FL: Chinese reform

Gao 17 Macalester College

The State Tobacco Monopoly Administration (STMA) was established in 1983 as the regulatory and administrative body for the industry (Fang et al., 2016, p. 2). Although formally the CNTC and STMA are separate entities, the two operate together to govern the industry through a vertical bureaucracy (Wang, 2009). Together, the CNTC and STMA control the entire 12 production chain of cigarettes from agricultural production to manufacturing to wholesale and retail. **The CNTC and the STMA act as a barrier to tobacco control efforts in China due to their economic and political influence**. In the mid-1990s, when the cigarette market became increasingly saturated, growing competition among producers resulted in increased protectionism and preferential policies to support local cigarette manufacturers (Yang et al., p. 5). After the abolition of rural agricultural taxes in 2005, provincial governments have encouraged farmers to plant tobacco crops since the remaining tobacco leaf tax became some provincial governments' only source of revenue from agriculture. To this day, **the revenue generated by the STMA makes up about eight percent of the national government's tax income.** Notably**, the STMA also sits on the committee of FCTC Implementation Mechanism despite the conflict of interest**, a position that allows tobacco corporations to dominate tobacco control policy making in China. **Due to their combined economic revenues over a long period of time, the CNTC and the STMA hold considerable political power within the Chinese government. The CNTC holds sustained government support at every level due to the high revenues involved in tobacco production and sale** (Fang et al., 2016).

FL: Framework Convention Tobacco Control solves

Gao 17 Macalester College

However, I argue that focusing on **FCTC implementation purely within national or regional boundaries has failed to address the global nature of TTCs.** leading to the continued growth of CNTC's expansion abroad. By examining the relationship between CNTC internationalization and FCTC policies, I illustrate the disconnect between global health governance and the international trade network. To be effective, global health governance such as the FCTC should **[The FCTC does not] account for the fact that tobacco companies can influence policies outside of national borders and treat such influence as a holistic and global process, rather than the sum of its activities within national or regional boundaries.**

MErgers UQ

MERICS March 2019 Compared to previous years, the industry mix of **<u>Chinese investment in [European]</u>** **Europe** was remarkably diverse in 2018 (Figure 5). With only a few exceptions, China's new outbound investment regime effectively curbed mega acquisitions seen in previous years (such as Logicor, Pirelli, Supercell), leading to a more equal and balanced spread of capital across sectors. In 2018, no single industry accounted for more than 20 percent of total investment. Figure 4 Source: Rhodium Group. © MERICS/RHG Chinese FDI transactions in the EU by country, 2000-2018 Cumulative value, EUR billion 0–5 5–10 10–20 20–40 >40 France 14.3 Spain 4.5 Italy 15.3 Germany 22.2 Denmark 1.2 Estonia 0.1 Latvia <0.1 Lithuania 0.1 Netherlands 9.9 U.K. 46.9 Belgium 2.2 Luxembourg 2.4 Ireland 3.0 Austria 1.0 Poland 1.4 Romania 0.9 Bulgaria 0.4 Croatia 0.3 Slovenia 0.3 Czech Republic 1.0 Slovakia 0.1 Hungary 2.4 Finland 7.3 Sweden 6.1 Greece 1.9 Cyprus 0.2 Malta 0.8 Portugal 6.0 MERICS | PAPERS ON CHINA | March 2019 | 13 Among the top sectors, those that saw particular strong growth last year include automotive (EUR 3.1 billion, driven by Geely's investment in Volvo AB), financial and business services (EUR 2.8 billion, driven by Legend's EUR 1.5 billion acquisition of Banque Internationale à Luxembourg, and Geely's EUR 1.0 billion acquisition of Saxo Bank), and health and biotech (EUR 2 billlion, driven by Kerui Tiancheng's acquisition of Biotest). In contrast, investment in **<u>transport, utilities and infrastructure dropped 96 percent from EUR 13.9 billion in 2017 to EUR 0.5 billion in 2018</u>** (most of last year's figure was accounted by one investment, CIC's acquisition of Logicor). Real estate also continued to drop, to EUR 0.9 billion, from a peak of EUR 6.8 billion in 2015.

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<u>The removal of such protectionist measures is one of the core aims of the BRI.</u> It is therefore imperative that the Initiative **<u>[If the BRI were to] extend</u>** deeper **<u>into</u>** the more advanced countries of **<u>Europe,</u>** as **<u>this should reverse the short-lived dip in Chinese investment into the continent.</u>**16 especially as Chinese companies tighten their focus on choosing investments more judiciously.