

Reform on Tobacco monopoly

—The Enlightenment of Chu Shijian's Three-in-One Approach

Xu Huimin

China Jiliang University,
Hangzhou

Abstract—Our country's tobacco monopolization system is a major economic system and also a legal system. China has preliminarily formed a tobacco monopoly law and regulation system and established a tobacco monopoly system with Chinese characteristics. However, together with the failure of regulation in tobacco industry, plan management system, tobacco finance and tax system and the combination of government function and enterprise management have impeded the development of our country's tobacco industry. Given this, China needs to launch tobacco control strategy, conduct reform on plan management system and tobacco finance and tax system, and separate government functions from enterprise management.

Keywords—*tobacco industry; monopoly system; plan management; finance and tax system*

In 1979, Chu Shijian was the director of Yuxi Cigarette Factory, before which the tobacco factory had just experienced the political movements such as the "Cultural Revolution". Because of the bloated institutions as a result of a long-term integration of government administration with enterprise as well as low productivity, the cigarettes produced were at the middle and lower level in Yunnan market. After Chu came, the reform started, which included the introduction of foreign advanced production equipment, changes in the distribution system, and improvement on tobacco quality. In order to improve the quality of tobacco leaves, he began to establish a tobacco planting base in 1985. Using the planting experience that he learned in the United States, his experimental field quickly gained great success. At that time, however, tobacco companies, tobacco factories and specialty bureau were three different systems, that is to say, tobacco leaves should be purchased under the unified national regulation; manufacturers had great restrictions on the choice of tobacco leaves; tobacco factories could only be responsible for production; tobacco companies sell tobacco leaves. Such situation was called tobacco allocation and everything was controlled by the state. In order to promote the experimental field, he began to break through institutional barriers and applied to the higher authorities for the merger of the tobacco company and the specialty bureau into the tobacco factory.[1] This was his "three-in-one" idea. Although it can solve problems very effectively, this idea has been extremely bold until today. In 1987, Yuxi Cigarette Factory became the top in the industry for the first time with hard indicators such as turnover, profit, profit and tax. In 1988, Hongmei, Ashima, and Hongtashan of Yuxi Cigarette Factory have become the best-selling cigarettes in the country. Yuxi Cigarette Factory has become the industry leader indisputably.

Tobacco[1] has been strictly regulated by national laws since its birth due to its high tax, harmfulness, addiction and negative externalities, and China is no exception, where tobacco monopoly is the main regulatory method. China's tobacco monopoly system has played a huge role in the planned economy era. However, it needs to be reformed and improved in the new historical period. Tobacco monopoly[2] is a monopolization of tobacco, referring to a system in which the state promulgates laws and regulations, operates specialized institutions for the licensing of tobacco and its products, and implements administrative regulations. The monopoly commodities[3] are different from the production and sale of general merchandise. The state monopoly bureau manages the monopoly commodity. Anyone operating privately in the name of a unit or individual will be subject to legal sanctions.

I. ANALYSIS OF CHINA'S TOBACCO MONOPOLY SYSTEM

A. *The purpose of implementing the tobacco monopoly system[1].*

The article 1 of the Law of the People's Republic of China on Tobacco Monopoly clearly stipulates the purpose of formulating and implementing the tobacco monopoly system: "To implement tobacco monopoly management, systematically organize the production and operation of tobacco monopoly products, improve the quality of tobacco products, and maintain the interests of the consumers, ensure the state's fiscal revenue, this law is formulated", which clarifies two purposes of the formulation and implementation of the tobacco monopoly system: first, to safeguard the interests of consumers; second, to ensure the state's fiscal revenue. From the order of the two points in the legislative provisions, the protection of consumer interests should be prioritized to the state's fiscal revenue, that is, the primary goal of implementing tobacco monopoly should be to protect the interests of consumers, and secondly to ensure the state's fiscal revenue.

B. *Internal management system of unified leadership and vertical management.*

State Tobacco Monopoly Administration (China National Tobacco Corporation) is not only the tobacco monopoly administrative department, but also has the corporate legal person qualification, which is often referred to as "two brands, one set of people." The Article 4 of the Law of the People's Republic of China on Tobacco Monopoly defines the system for unified leadership and vertical management of the tobacco industry. First of all, the tobacco monopoly management

authority is completely controlled by the tobacco monopoly administrations at all levels, and other agencies or departments basically have no space to intervene. Secondly, the tobacco monopoly organization field implements the vertical leadership system, that is, State Tobacco Monopoly Administration (National Tobacco Monopoly Bureau) is at the top of the Chinese tobacco monopoly management system, which manages the nationwide tobacco monopoly, work. Although the provincial, local and county tobacco monopoly bureaus are mainly subject to the dual leadership, they are mainly under the leadership of the upper tobacco monopoly administrative department.

II. THE PREDICAMENT FOR CHINA'S TOBACCO INDUSTRY

A. *Failure of China's Tobacco Industry Regulation*

Because of the special nature of tobacco, Chinese government has always adopted stricter control measures, or government regulations. In 2003, Chinese government signed the Framework Convention on Tobacco Control of the World Health Organization. On January 9, 2006, the Framework Convention on Tobacco Control came into force in China. In order to fulfill the Convention, various ministries and commissions in China have successively issued the Regulations on the Labeling of Domestic Cigarette Packaging, National Health City, District Standards, and Methods for Assessment, Supervision and Management, and Strictly Controlling Smoking Shots in Movies and TV Series Notice and China Tobacco Control Plan (2012-2015). In practice, the Chinese government has also taken many measures to reduce the supply of tobacco. However, the effect of tobacco control in China before 2014 is not obvious. According to the 2010 Global Adult Tobacco Survey, over 220 million (19.6%) adults in China have seen tobacco advertising, promotion and sponsorship in the media or public places in the past 30 days. Among them, the proportion of people who notice the advertisements was 76.3%, and the proportions of promotion and sponsorship were 20.2% and 25.5% respectively. From 2016 to 2014, the production and sales of tobacco products in China showed a steady growth. China currently has nearly 300 million smokers, accounting for 23% of the country's total population and 30% of the world's total smoking population respectively, which is the First Smoker Country in reality as well as in name all around the world. It can be seen that the regulation of the tobacco industry under the monopoly system is unsuccessful.

B. *The predicament of the planned management system*

China implements the tobacco monopoly legal system, that is, the state implements strict planned management for cigarette production. The Tobacco Monopoly Law promulgated clearly defines the main body, authority, and process channels for the production of cigarettes in the form of laws. For example, Article 14 of the Tobacco Monopoly Law clarifies that first, the State Council planning department (formerly the Planning Commission, now the Development and Reform Commission) is responsible for formulating the cigarette production plan, and issuing the annual total output plan for cigarettes and cigars according to the provincial administrative divisions; second, it

is the provincial tobacco monopoly bureau responsible for issuing the annual total output of cigarettes and cigars to various manufacturers, and the third is the classification and classification of cigarette production plan indicators issued by the National Tobacco Corporation and the provincial tobacco companies. Under the premise of the monopoly of the monopoly system, once the plan indicators are formed, they will be distributed in a highly commanded manner. The plan indicators will become a valuable scarce resource, and the annual plan indicators will be smaller, which in fact solidified the interests of the provinces[1]. It has been proved that this pattern of cigarette production allocation has lost its role in macroeconomic regulation and control, and objectively formed a blockade wall of "protecting backwardness and restricting the advanced", which has created huge obstacles to the introduction of market competition mechanism in the tobacco industry.

C. *The predicament of China's tobacco taxation system*

The tax-sharing reform introduced in 1983 is of great significance in China's tax reform. It further rationalized the fiscal distribution relationship between the central and local governments, enabled the central government to obtain more and greater fiscal and tax revenues, and enhanced the central government's macroeconomic regulation and control capabilities. However, the tobacco taxation system has continued to show more and more ills, which are reflected in the following aspects: 1. Almost all tobacco taxes are closely related to local fiscal revenue. Tobacco tax, urban construction tax and education surcharge are local taxes. Value-added tax is a central and local distribution tax. The incremental part of the consumption tax, which is nominally a central tax, also enters the shared scope. This has formed the internal driving force for local governments at all levels to vigorously support the development of the tobacco industry, resulting in the continuous increase of China's tobacco leaf acreage and cigarette production and sales, as well as the emergence of increasingly negative externalities, objectively leading to a deviation from the prohibitive tax, an national policy on tobacco control and harmfulness to social welfare. 2. The current consumption tax collection link is in the production process. The consumption tax is included in the fiscal "tax refund" formula of the government, that is, the cigarette should be levied tax on where it was produced. This causes two problems: first, the government where the cigarette manufacturing enterprise is located attaches great importance to the cigarette industry, and spares no effort to support and assist tobacco companies to expand production scale. On the other hand, it tries its best to protect the local cigarette industry and local brands. Many places use administrative means to restrict the entry of cigarette products in other regions, which results in separation of the market and the prevalence of local protectionism, and therefore seriously hindering the formation of a unified, competitive and fair national cigarette market.

D. *The predicament of the integration of government functions and enterprise management*

The legal system in which China's government and enterprises are not divided is the result of direct study and acceptance of the Soviet socialist planned economy. Tobacco

monopoly management agencies at all levels and corresponding tobacco management enterprises have “two brands, one set of institutions”, and the director of the Tobacco Monopoly Bureau is also the manager of tobacco companies. The Tobacco Monopoly Bureau (Company) is not only the government administrative organ that manages the market order, but also the economic main body of marketing. The “referee” and “athlete” roles are combined. Therefore, the value target of maintaining the market fair and pursuing economic benefits is confused and blurred. This system played a positive role in the development of the tobacco industry during the planned economy. However, with the establishment of China's market economy and the development of globalization and integration of the world economy, the malpractices and contradictions brought about by the system of integration of government and enterprise are becoming increasingly prominent. The excessive administrative power is involved in market competition, which makes the market allocate resources distorted and the market economy law, trading rules and administrative power often play a discordant voice. Only by reforming the current legal system that does not distinguish between government and enterprises can the administrative organs be fair in law enforcement, and truly maintain the order of the cigarette market. Only by stopping implementing local protection and internal protection with administrative power, can the tobacco companies be used as market entities to develop long-term competition and implement market-oriented operations in accordance with market rules and adapt to the development trend of the market.

III. THE REFORM DIRECTION OF CHINA'S TOBACCO MONOPOLY

As a special industry involving important financial resources and health and safety, the tobacco industry is the last bastion of the planned economy and an important source of economic resources for the central and some local governments. Therefore, the reform of the tobacco industry should be active and implemented step by step. Under the premise of adhering to strict national control and macro-control, planned and phased institutional reforms should be carried out.

A. *Establishing China's tobacco control strategy*

Formulate and implement a national tobacco control strategy and establish an effective tobacco control mechanism. On 4 December, 2012, eight departments of the Inter-Ministerial Coordination Leading Group for the Implementation of the Framework Convention on Tobacco Control jointly issued the China Tobacco Control Plan (2012-2015). However, due to various reasons, the Plan is still so limited to the framework that many measures are not specific enough, content is not clear enough, and the operability is poor. Therefore, it is recommended to introduce the implementation rules, and to formulate the tobacco control plan and implementation rules for 2016-2020, and incorporate the overall tobacco control target into the overall strategic goal of finishing building a moderately prosperous society. According to the current situation of tobacco control and the development of the tobacco industry, it should gradually adjust the tobacco monopoly system of government and enterprise integration;

adjust the current tobacco fiscal and taxation system, reduce the dependence of governments at all levels on tobacco taxation; use taxation, price and other economic means to curb tobacco consumption demand; clear the main body of responsibility, increase supervision, and truly implement the ban on smoking in public places.

B. *Reform of the planned management system*

Although the tobacco industry is a special industry, it is first and foremost an integral part of China's national economy, and its operation should meet the requirements of market rules. Therefore, tobacco reform is first and foremost abolished the planned system for cigarette production and distribution, and introduced market competition mechanism. The abolition of planned regulation is to give the enterprise market freedom and solve the phenomenon of unreasonable allocation of resources in the cigarette market. Put the market in a dominant position, give full play to the decisive role of the market in resource allocation, truly rely on market mechanisms, price rules and other market instruments to regulate the supply and demand of tobacco, use the competitive mechanism to achieve the survival of the fittest of tobacco companies, and foster international competitive large enterprises and big brands. Second, we must always adhere to the principle of strict management and macro-control, and play the role of the government to solve the problem of “market failure.” In view of the special attributes of the tobacco industry, the government should strengthen supervision, including setting market access conditions to prevent flooding; supervising the operation process, maintaining market order; improving laws and regulations, and suppressing negative externalities.

C. *Reform of tobacco taxation system*

The foothold of adjusting the tobacco taxation system should be to maximize public welfare and protect the social welfare of citizens. The reform methods include: 1. Changing the collection link of cigarette consumption tax from the production link to the wholesale link before retail. This will help break the regional blockade and local protectionism to create a fair and just competitive environment for the development of the national tobacco industry[1]; 2. The tobacco consumption tax and value-added tax portion, which is the central return of the local base, will be listed separately and will no longer be used as a basis for calculation of a growth share. The previous year (or three-year average) was the return base, and the amount of local tobacco tax rebates continued to be stable at this year's level. The increase or decrease in tobacco tax has nothing to do with the local. 3. Change the attribution of cigarette consumption tax, which is shared by the local and the central government. The central government owns the tobacco consumption tax levied from the production link, and the local finance owns the tobacco consumption tax collected from the sales link[2]. Both local interests and central interests are guaranteed. At the same time, the enthusiasm of local governments to participate in the reform can be fully mobilized, so that the country can realize a unified large market as soon as possible.

D. Separation of government functions and enterprise management

Separation of government functions and enterprise management means separating the tobacco monopoly administration from the tobacco industry and business. The monopoly management agency exclusively exercises the tobacco administrative and law enforcement powers granted by the Tobacco Monopoly Law; while the tobacco industrial and commercial enterprises act as the main body of the tobacco country franchise as stipulated in the Tobacco Monopoly Law. The monopoly organs and tobacco companies are completely separated in terms of personnel, institutions, functions and funds, and each has its own duties. The monopoly management agency can be set up according to the division of administrative districts, that is, retain the existing institutional and monopoly management functions, and only serve as the main body of administrative management, market supervision and law enforcement, and serve and supervise all legal tobacco business entities in the market. Tobacco commercial companies and cigarette industrial enterprises at all levels must break the administrative regional restrictions and reorganize according to market principles. After realizing the complete separation of government and enterprise, in accordance with the requirements of the modern enterprise system, a modern enterprise system with the company system as the main form is established. On the one hand, we must rationalize the asset management system of the tobacco industry, establish the shareholding of tobacco capital and the modern property rights system that conforms to the characteristics of tobacco. On this issue, China can learn from the experience of Japan. On the other hand, it is necessary to improve the corporate governance structure of the company and establish a modern enterprise system that adapts to market competition.

IV. CONCLUSION

Due to the highly centralized administrative monopoly in China's tobacco monopoly system, and other institutional obstacles such as non-discrimination of government functions and enterprise management, plan solidification and fiscal and taxation segmentation which have solidified the interest pattern of the domestic tobacco industry, China's tobacco industry meets great obstacles in its growth and development. And China has faced with enormous market pressure and various public opinion after joining the WTO and the WHO. Therefore, it is inevitable to reform the tobacco monopoly system. However, the reform involves a variety of complex and extensive economic and legal issues. The reform should be implemented step by step from the economic, administrative, and law perspectives to achieve good results.

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