
Consumption Tax on Plastic Bags

Vietnam plastic-bag policy commentary | Key concept: Efficiency

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Coverage

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- Negative externalities and demerit goods
- Indirect tax incidence and allocative efficiency
- Stakeholder evaluation and policy alternatives

Commentary 1

Title of the article: ‘Consumption tax proposed as Vietnam struggles to fight plastic bag use’

Source of the article: VNExpress International
<https://e.vnexpress.net/news/news/consumption-tax-proposed-as-vietnam-struggles-to-fight-plastic-bag-use-4012780.html>

Date the article was published: November 15, 2019

Date the commentary was written: October 28, 2020

Word count of the commentary: 786

Unit of the syllabus to which the article relates:
Microeconomics

Key concept being used: Efficiency

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Consumption tax proposed as Vietnam struggles to fight plastic bag use

Minh Minh

VNEXPRESS International

November 15, 2019 / 03:37 pm

Plastic bags should be made more expensive so that people can be dissuaded from using them, a deputy minister has proposed.

The highest tax rate for single-use plastic bags is VND50,000 (around \$2) per kilo and "that's not enough," said Deputy Minister of Environment and Natural Resources Vo Tuan Nhan.

The ministry estimated that each Vietnamese family consumes five to seven plastic bags per day.

"This is because plastic bags are not only convenient but really cheap," Nhan said at a conference on Thursday in Hanoi.

"At any wet market in Vietnam, we can see that even before buyers ask for it, vendors have already purchased goods in a plastic bag. And in many cases, that will go into a bigger plastic bag and in the end several plastic bags go into an even bigger one. Finally, buyers take home products wrapped in plastic inside plastic."

According to the Food and Agriculture Organization, Vietnam discards over 1.8 million tons of plastic waste but just 27 percent is recycled.

Ranked fourth in the list of nations dumping plastic waste in the ocean by the United Nations Environment Program, the nation generates around 2,500 tons of plastic waste daily.

Each Vietnamese person consumed only 3.8 kg of plastic in 1990, but 28 years later, this had risen to 41.3 kg, according to a report released in September by Ipsos Business Consulting, a global growth strategy consulting firm based in Paris.

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Nhan said: "If we fail to control the consumption of plastic products in general and plastic bags in particular, it will become a threat to stable development and affect human health."

"Even when the rising use of plastics is linked to economic development, it cannot make up for environment pollution and the damage that Vietnam's image will suffer in the international community," the deputy minister said.

Nhan noted it was necessary to change consumer's habits and suggested a consumption tax on plastic bags. He did not elaborate, but added the tax by itself would not solve the problem.

Other campaigns were needed alongside bold steps to limit the use of plastics, including a possible ban on all persistent plastics and disposable plastic bags and heavy tariffs imposed on companies creating large amount of plastic.

"...Producers will have to look for greener solutions to replace plastics," he said.

Nhan's ministry will continue to look at suitable policies and regulations to encourage consumers to limit the use of plastics.

Preferential treatments such as tax exemption for producers making environmentally friendly products should be considered, he said.

Southeast Asian countries, among the world's worst ocean polluters, need tougher regulations on plastic packaging, the United Nations Environment Program (UNEP) said in a report Wednesday.

Southeast Asia, home to 641 million people across 10 countries, needs to introduce region-wide policies to regulate plastic packaging, it said.

Vietnam has so far this year taken several measures to tackle its plastic problem.

Prime Minister Nguyen Xuan Phuc launched a campaign to fight against plastic waste in June with targets to achieve zero disposable plastic use in urban shops, markets and supermarkets by 2021 and extend it nationwide by 2025.

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Last month, the nation's economic hub Ho Chi Minh City ordered all supermarkets, shopping malls, convenience stores and bookstores to replace plastic bags with environmentally friendly options by 2020.

Tourism hotspot ancient town Hoi An has begun restricting the use of single-use plastic items and plastic bags. By the end of 2021, plastic bags and other single-use plastic items will not be used in traditional markets and supermarkets in the town.

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Single-use plastic bags are demerit goods in which a demerit good is defined as a good that creates negative impacts on its consumer¹, with its consumers mostly not knowing or ignoring the harmful consequences. Generally, a demerit good emits negative effects on the third party, referred to as negative externalities. In this context, the consumption of single-use plastic bags contributes to increased oil extraction for manufacturing plastic (*constitutes for increased GHG emissions, and oil leakage pollution to surrounding environments*), and increases the amount of litter (*risks for potential flooding, and formation of microplastics*). Thus, the market for single-use plastic bags in Vietnam is a paradigm of how negative externalities creates a market failure as the market only accounts for the marginal private cost without achieving the marginal social cost. To tackle this issue, the Vietnamese government is planning to implement indirect taxes to reduce the overall plastic consumption and fulfill the marginal social cost, which refers to the total cost the society must spend in the production of another unit of the good², in order to achieve allocative **efficiency** (maximizing the social surplus through best possible resource allocation).

¹ Pettinger, Tejvan. "Demerit Good Definition." *Economics Help*, www.economicshelp.org/blog/glossary/demerit-goods/.

² Kenton, Will. "Marginal Social Cost (MSC)." *Investopedia*, Investopedia, 14 Dec. 2020, [www.investopedia.com/terms/m/marginalsocialcost.asp#:~:text=Marginal%20social%20cost%20\(MSC\)%20is,further%20action%20in%20the%20economy.](https://www.investopedia.com/terms/m/marginalsocialcost.asp#:~:text=Marginal%20social%20cost%20(MSC)%20is,further%20action%20in%20the%20economy.)

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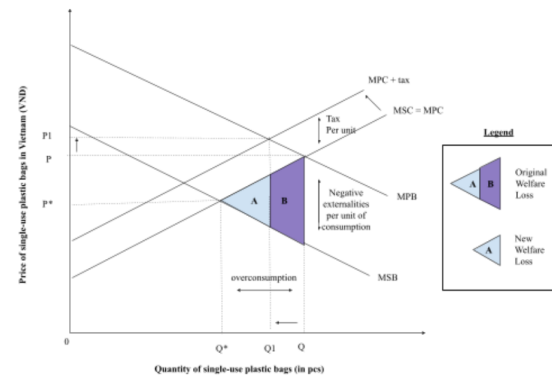


Figure 1: Consumption tax imposition on single-use plastic bags in Vietnam

The figure above depicts an integrated indirect tax and negative externality graph. Firstly, this graph shows that a tax on the supply of single-use plastic bags will result in ‘MPC’ shifting to ‘MPC + tax’. This movement will also spark a new value for quantity demanded, in which will move from ‘Q’ to ‘Q1’. As illustrated, the distance between Q* and Q signifies overconsumption and this movement will have the ability to shorten the distance, thus decreasing overconsumption. The elimination of this overconsumption will also result in less deadweight welfare loss from A+B to A, moving closer to achieving allocative **efficiency**. Further, the taxes will result in an increase in government revenue, as signified in VND $[(P1-P) \times Q1]$.

The implementation of the indirect tax policy on single-use plastic bags has an array of advantages and disadvantages. First, this policy will result in the reduction of real income of individuals which will lead to lower living standards, and seeing that Vietnamese citizens generally have low living standards³, it will worsen it. Subsequently, this will also constitute for

³ “Nguyen, Dat. “9 Million Vietnamese People Still Living in Extreme Poverty: Report - VnExpress International.” *VnExpress International*. Latest News, Business, Travel and Analysis from Vietnam. VnExpress International, 7 Apr. 2018. e.vnexpress.net/news/news/9-million-vietnamese-people-still-living-in-extreme-poverty-report-3733087.html.”

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the rise in income inequality. As indirect taxes are considered to be regressive taxes (i.e. tax being applied uniformly), it will take a lower percentage income from high-income individuals than low-income individuals which will again negatively contribute to already widening income inequality⁴. However, due to the inelastic nature of single-use plastics as caused by their very-low costs and convenience, there will be a greater tax burden on the consumers rather than the producers.

In contrast to its goal, it may also push the emergence of a black market to supply single-use plastic bags with lower costs. Furthermore, this policy will impact SMEs substantially as they will experience difficulty in finding alternatives due to lack of funds to research other options and purchasing more expensive alternatives, thus also reducing their revenues.

Nevertheless, this policy also brings about significant positive impacts. Principally, this tax policy will add to government revenue. And, seeing that the demand is quite inelastic, collected government revenue will have a huge increase as individuals still consume the product heavily due to their reliance. Secondly, this policy may also reduce the overall consumption of single-use plastic bags due to their higher prices resulting in allocative **efficiency**.

To conclude, the policy is advantageous in increasing government revenue, and reducing overall consumption of single-use plastic bags, which will benefit environmental sustainability; however, it also reduces real incomes, increases income inequality, and pushes the emergence of a black market. Thus, seeing that the disadvantages outweigh the advantages, a better solution must be provided. This commentary proposes that indirect taxes should be more targeted to specific groups. Initially, the Vietnamese government could apply this policy only to large corporations as they can adapt quickly through enormous funding in research to find alternatives compared to SMEs. Next, the policy should be applied to individuals with high-income levels as it will not have a substantial impact on their real incomes.

⁴ *À Saigoneer in Vietnam 1 YEAR AGO, et al. ÆAs Vietnam Gets Wealthier, Economic Inequality Also Gets Worse.ãf Saigoneer, 26 July 2019, saigoneer.com/vietnam-news/17029-as-vietnam-gets-wealthier,-economic-inequality-also-gets-worse.*

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Nevertheless, if there is a dire need for taxes to everyone, low-income individuals should be taxed significantly less. This is not only to sustain real incomes and have income equality but also to ensure long-term effectiveness of the policy through the consideration of the stakeholders' condition. Lastly, the government should also conduct massive socialization to the public regarding policy through methods such as tax trial periods. Governments should also consider implementing negative advertisement campaigns to bring a behavioral change in its people. This strategy will be beneficial for the long-run while imposing incremental consumption taxes will be advantageous for the short-run to achieve allocative **efficiency**.

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