

Ma, Huiqin

Article

A letter by the Regional Editor for Asia: The current wine production - consumption in China

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A letter by the Regional Editor for Asia: The current wine production–consumption in China

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With 28.7% of the world's vineyards, Asia ranks second only to Europe in coverage. But it accounts for a mere 6.9% of world's wine production, since the vast majority of those vineyards are used for table grapes and raisins. In other words, grapes in Asia are much more likely to end up on a plate than in a glass.

Even so, Asia has attracted the world wine industry's attention over the past decade. Alongside the relatively mature wine market of Japan, China is especially intriguing given its fast growth and the size of its increasingly affluent population, with Hong Kong already playing a leading global role as a fine wine hub.

Wine consumption in China grew 67% by volume from 2000 to 2012, according to OIV data. The main driving forces include rising family income, continuing urbanization and changing lifestyles and tastes. Consumers have gone from expecting wine to be both sweet and sour and relatively low-alcohol to a largely improved tolerance and acceptance of dryness and tannins.

Wine imports, particularly from France, have seen swift growth during this time. In 2012, China Customs recorded 393.9 million l of imports, with 272.4 million l of bottled wine and 121.5 million l of bulk wine. Bottled wine growth is especially impressive, up more than six-fold from 43.5 million l in 2007 and representing a rising share of total imports. The first half of 2013 saw a further 20.9% year-on-year rise by volume.

Bottled wine is imported by thousands of companies and distributed everywhere from first-tier markets like Shanghai and Beijing to fourth-tier cities unknown to most people outside of China. Many importers are small-scale and utilize relatives and friends as key distribution channels.

But China is more than a wine importer. It also ranks as the fifth largest wine producer according to OIV, and the biggest in

Asia, with about 10 times more volume than each of Japan and India. This sector is strongly supported by some provincial and regional governments as there are few agricultural products that can create as much value added for them as wine. In particular, the northwest areas of Ningxia, Gansu and Xinjiang have eagerly created ambitious wine development plans.

They are part of a shift in wine production in China. Farmers in areas with strong table grape markets can earn from two to eight times more income than if they focused on wine grapes. Thus, the wine industry is seeing growth not in the traditional highly populated northeastern coastal areas but in the more sparsely populated northwest ones. This development fits into central government plans to maximize the use of farmland and water.

Despite this growth, China will not become a serious wine exporter given present conditions. Vineyard coverage is increasing but there are limits to irrigation water and there are relatively high production costs in north China, not least of them rising labor costs and the need to bury vines each year to protect them from cold dry winters. It is hard to economically produce good quality wine grapes on a large scale in China. The domestic wine sector clearly senses this as well as the increasingly strong competition from imported wine. The development strategy of regions such as Ningxia is changing from establishing big wineries to encouraging diversified operations, wine tourism and cellar door sells to build and tighten relationships with consumers and protect market share.

At a macroeconomic level, the Chinese economy had a declared growth rate of 7.7% in 2012 and faces structural issues. The growth rates for 2013 and ensuing years may well be lower and contrast to the annual double-digit seen for much of the past three decades. The wine industry is reflecting this cooling period, with reported Chinese wine production for the first half of 2013 seeing a decrease of 7.2% compared to the same period of 2012. Top producers such as Great Wall and Changyu reported decreased sales and profits. And although bottled imports have continued to rise, the volume and value of imported bulk wine has fluctuated, dropping 31.4% and 24.2% in the first half of 2013 respectively.

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After years of unprecedented growth for both China and the wine sector, it appears we have entered a period of slower growth. This maturing market will provide both challenges and opportunities for importers and producers as they seek to succeed in the world's largest consumer market.

Huiqin Ma
*China Agricultural University, College of Agriculture and
Biotechnology, China*
E-mail address: dehlin@gmail.com