Abstract

Fine wine from Bordeaux has become fashionable and much discussed in China. Today, China and Hong Kong are the most important customers for Bordeaux wines with China representing 20% of all Bordeaux exports. Hong Kong, on the other hand, has positioned itself as the number one place for Bordeaux fine wine representing 5% in volume and 18% in value of all Bordeaux exports in 2011. It has further positioned itself as the fine wine gateway to China with a 82% re-exportation rate of French wines to mainland China. Several factors are responsible for the intensified interest in fine wine in China. An increased openness has led the population to adopt Western lifestyles. At the same time, Chinese government policies have altered consumer behaviour. Finally, the emergence of a wealthy class has turned fine wine into a gift of predilection and an alternative investment. This strongly growing affluent class has discovered luxury goods and collectibles as a mean to convey their new status to the outside world.

We first describe the interest of Chinese for fine Bordeaux wines and the concurrent evolution of Hong Kong into the major place for wine auctions. We show that the demand for Bordeaux fine wines has strongly increased and that the abolition of excise duties in Hong Kong has favoured the creation of a wine hub that caters for the growing Chinese demand. We then construct wine indices over the period 2007-2014 for different auction locations around the world based on auction prices from five different auction houses and using a hedonic pricing approach. The resulting indices are used to examine the existence and evolution of a price premium of fine wine at Hong Kong auctions as compared to other auction places. We find a 19% premium for fine wine sold at Hong Kong auctions. We further show evidence that the price premium is not uniform across wines and strongest for those with 100 parker points or the strongest brand power. Finally, we observe that the premium is declining over time. We argue that this is due to the closing of the educational gap that leads buyers to consider a wider range of wine purchases.

We contribute to the literature across several dimensions. First, it examines the creation and evolution of price premia of an alternative and emotional asset in an emerging market. Second, it extends our understanding of the influence emerging markets, and here especially China, has on alternative investments. Third, this article sheds new light on price dynamics of real assets. Evidence on real assets such as collectibles or real estate is so far limited but has gained in attention in recent years. Fourth, unlike, previous papers we use a much deeper and more comprehensive dataset. We analyse different market places in Asia, Europe and North America and make use of data from five auction houses that dominate the market for fine wine.