**Title**

“Proper Divorce Saves Both Sides”: Foreign Partnerships, Coopetition and Industrial Upgrading in Chinese Wine

**I want to submit an abstract for:**

Conference Presentation

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**Keywords**

China, Coopetition, Industrial Upgrading, Economic Development, Joint Ventures, Catch Up

**Research Question**

To what extent does coopetition involving foreign firms and experts benefit Chinese producers and promote upgrading in the Chinese wine industry?

**Methods**

Qualitative fieldwork included semi-structured interviews, repeat visits, observation.

One month each 2013, 2014, 2015. 8 producing regions, 49 wineries, plus suppliers, educators, farmers.

**Results**

Investor partnerships: Joint ventures with limited information sharing

Foreign wineries in China: Limited firm-level collaboration, but significant human capital

Foreign trained Chinese experts: Direct benefits from cooperation

**Abstract**

“Proper Divorce Saves Both Sides”: Foreign Partnerships, Coopetition and Industrial Upgrading in Chinese Wine

1. Introduction/short abstract

Multinational corporations and foreign investors have long flocked to China in hopes of accessing its rapidly growing market, so it is not surprising that they wield significant influence in the burgeoning wine industry. What remains unclear is the extent to which these partnerships promote industrial upgrading that benefits Chinese producers. Drawing on fieldwork in eight wine producing regions (49 wineries), this research explores the varied trajectories of Chinese firms as they negotiate relationships with foreign and Chinese investors, experts, and
winemakers. We identify three key avenues of information sharing and cooperation: 1) Investor partnerships (typically multinational corporations with important financial/government ties, but no communication between wineries); 2) Foreign wineries operating in China; and 3) Human capital transfers (foreign trained Chinese experts and public intellectuals). Because producers depend on promoting the legitimacy of Chinese wine, the industry benefits greatly from coopetition, whereby competing actors share information and resources, rather than protecting industry secrets. Although we find that coopetition is an important driver of upgrading in the Chinese wine industry, we argue that the environment for the production and marketing of Chinese wine is changing so quickly that conditions for successful cooperation are likely to promote temporary or limited cooperation between large wineries. By contrast, communication between individual experts and direct communication with the media has facilitated a dramatic shift in the production and public perception of quality Chinese wine.

2. Coopetition and industrial learning in wine

Coopetition can play a key role in global industrial upgrading, as competing firms benefit from cooperating in the pursuit of a common goal (Luo, 2007). This phenomenon is particularly salient in the wine industry, where marketing is often tied to the perceived quality of a given region (Dana et al., 2013). Equally important, for developing wine regions, “catching up” is directly bound up with information sharing, access to foreign expertise, and access to “social technologies” (Cusmano et al., 2010). For foreign firms, such transfers are inherently costly, so research that seeks to identify the limits of industrial cooperation notes the temporary nature of most joint ventures, emphasizing the point at which technology transfer is more costly than the benefits of partnership (Bontempi and Prodi, 2009; Brandt and Thun, 2010).

Wine offers a curious case here because technical know-how involves virtually no true industry secrets, particularly as the influence of travelling winemakers reached its apex. Instead, information sharing in the wine industry is something of a moving target, subject to local politics, shifting consumer preferences, and the strategies of individual firms. Importantly, industrial learning occurs not only within firm partnerships, but also in public marketing campaigns and media. Our objective is to assess the extent to which foreign-Chinese communication benefits Chinese producers and contributes to upgrading in the industry more broadly. To this end, we identify three distinct types of bounded communication: 1) Protecting independence (the temporary, limited, or in-name-only joint venture); 2) Marketing mystery (emphasizing that a winery has “business secrets” or that wine is “mysterious”); and 3) Distinguishing/freeriding on a brand (manipulating the politics of grape origin, brand recognition, and even trends in winemaking).

3. Investor partnerships: Joint ventures with limited information sharing

Investor partnerships are the most public of joint ventures, yet they tend to involve virtually no visible cooperation in the production of wine. These typically involved multinational conglomerates whose joint ventures made it possible for foreign firms to promote their brands, particularly when such ventures were required by the Chinese government. For example, the state-owned giant, Changyu, has several chateaus with museums that advertise the Changyu-Castel brand, emphasizing its importance in the global wine industry. But any actual cooperation in the production and marketing of wine is difficult to discern and Changyu is conspicuously absent from Castel’s website. Such ventures may be considered coopetition in the sense that both giants continue to produce competing products despite some form of co-ownership of a subsidiary. Although the transfer of technology is limited, large investor partnerships play a key role in the industry since they invariably control a large share of the market, driving important shifts in consumer demand. Interestingly, it is only among a few of the largest producers that we were told about the importance of “business secrets”, with one guide going as far as to indicate that her winery controlled secret proprietary technology for the making of sparkling wine, explaining that even staff are not allowed in the winery when they make it.

4. Foreign wineries in China: Limited firm-level collaboration, but significant human capital

As the Chinese wine market grew, foreign wineries began to invest in making their own wine in China. The
benefits of such projects are many. Although restrictions on foreign ownership were lifted in 2004, every major winery has continued to engage in some form of joint partnership. In each case, partnership with a state-owned firm has provided crucial access to grapes (including help coordinating agricultural labor) as well as key political resources. The famous Moet project in Yunnan, is co-owned with a 20% share by Shangri-la, a relatively absent partner that was necessary for LVMH to get the land it needed. For Lafite, the partnership is with Citic, the state-owned construction company. Here, Lafite gains crucial access to local bureaucracy (government support for land, permits, etc.), without having any ties to a winery. By making its own wine in China, Lafite further cements its own reigning status among Chinese consumers as the best, most famous wine in the world. Meanwhile, it expands its influence, promoting the growing market for Chinese wine while cornering a share of it. Despite their joint ventures, there is very little direct cooperation between wineries involved in these and similar projects, but they play a distinct role in industrial learning. Each winery sends a few key foreign experts who work full time in the vineyard and/or winery, but their daily work is with local teams. During its first year, Lafite Shandong had a French winemaker and an intern working on disease prevention, but the vast majority of work was undertaken by Chinese staff. As Moet prepares its long-awaited release in Yunnan, it is run by French management, with a few foreign experts. Their daily work includes a team of foreign-trained Chinese enologists overseeing a team of experts trained in China, all of whom work with locally trained staff and farmers. Of course, those working on a temporary contract will move on to other wineries with highly marketable skills. Beyond this direct development of human capital, villagers also communicate, continuing to produce grapes directly for Shangri-la, gossiping with growers from other villagers who make wine for a remarkably well-developed market of bars and restaurants for tourists headed to Tibet.

On the other hand, neither of the LVMH projects (Moet in Yunnan or Chandon Ningxia) has expressed any plans to open to the public. The Chandon project looks very much like Chandon Napa, but unlike other Ningxia chateaus, visitors are welcomed by invitation only. In Yunnan, Moet’s first wines will be released in the fall, but only two journalists have been invited to visit the winery. This, combined with the isolated Tibetan villages where the vineyards are located, lend an air of mystery and exclusivity to the Moet project. A lavish hotel, decorated almost entirely with locally made Tibetan craftsmanship, is said to be destined only for the most exclusive of VIP guests. This seems counterintuitive when you consider that the isolated villages of and surrounding the Moet project include multiple guesthouses designed to accommodate tourists from around the world seeking out famous and spiritually significant sites between Shangri-la and the Tibetan border.

5. Foreign trained Chinese experts: Direct benefits from cooperation

For Chinese producers, access to foreign experience is crucial. When we began fieldwork in 2013, several Chinese producers complained that there was little opportunity for information sharing between local wineries and with foreign winemakers. By 2015, this complaint had largely subsided (among our respondents, at least). During this period, they emphasized significant support for young wineries. Local governments in Ningxia and Xinjiang have invested through direct subsidies to dozens of new wineries, competitions, student scholarships, as well as strategic visits for media and industry experts. The Ningxia Winemaker’s Challenge invites foreign winemakers to visit, make wine and compete for significant prizes. Visits by Masters of Wine like Jancis Robinson and Liz Thach ensure that Chinese wine gets international publicity, including smaller, but consistently respected producers.

Some of the most important drivers of communication come from Chinese experts trained abroad. This includes winemakers, suppliers (corks, barrels, bottles, etc.), public intellectuals, and academics. These experts are among the most candid players in the industry, in part because they benefit directly from coopetition between producers. In 2013, we were concerned that the rate of cork taint was unsustainably high in wines we tasted. Anecdotally, we have noticed a dramatic shift since then, including significant expertise on the part of Chinese suppliers.

In terms of consumer perception, industry progress is most visibly communicated by consultants who are active in the media. Several Chinese experts simultaneously fulfill the roles of enologist, public intellectual, journalist, public relations expert, and cultural liaison for foreign investors. Li Demei runs the oenology school at China Agricultural University, opening up opportunities for jobs and internships, but he also writes a regular column for Decanter China and acts as a freelance consultant and winemaker for Chinese wineries. Ma Huqin is a molecular
The biologist whose expertise in grape genetics led her to teach wine appreciation. She has long been famous as an industry consultant, organizing events, promoting wine tourism, facilitating Ningxia’s entry into the OIV, and eventually being named Assistant Director of the Ningxia Bureau of Grape Industry Development.

6. Conclusion

With each type of collaboration, we have explained an aspect of upgrading in Chinese wine, but we have encountered some surprising limits to cooperation and information sharing. Overall, we find that Chinese producers have benefited from foreign expertise and investment, while facilitating foreigners’ ability to negotiate local markets and institutions. On the other hand, many foreign-Chinese exchanges are temporary, through short-term contracts, increasingly independent partnerships, or severed ties. Foreigners often struggle with cross-cultural communication, made more complicated by a rapidly changing industry and shifting consumer preferences, which can present challenges for partnership. At the same time, a short-term collaboration may also provide sufficient technical expertise and local access for both parties. One expert argued that every foreign-Chinese cooperation is short-term, be it a large joint venture or the recruitment of a single foreign winemaker. But there’s nothing wrong with that, the respondent added, because “proper divorce saves both sides.”

References