From Kanpai to Banzaï: The Determinants of Sake Exports since 2001

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Conference Presentation

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Keywords
sake exports, geographical distance, gravity model, PPML

Research Question
Exploring determinants of exports of Japanese sake over 2001-2016

Methods
State-of-the-art gravity model estimations

Results
Regularities and a few interesting differences compared to recent paper on global trade of spirits (Bouet et al 2016)

Abstract
For over 2,000 years, sake has remained a uniquely Japanese product. More commonly referred to as ‘nihonshu’ in Japan, sake is a 12-17 degrees alcoholic beverage made from rice fermentation. Its aspect is that of a translucent liquor with subtle perfumes varying, according to the categories, from opaque to the transparency of pure water. It is made in open tanks according to a complex process of multiple and parallel fermentations started and accompanied by the work of the brewer. What is commonly called ‘rice wine’ is as old as rice, and all Asian countries produce it under various names (e.g. shaoxingjiu in China or shogokchu in Korea). In most of these countries, it has been marginalized when distillation techniques were discovered at the benefit of strong spirits. In contrast, in Japan, sake became an identity product, one of the reasons being its strong association with Shintoism, the original religion of Japan before Buddhism became the main cult.

Before the Second World War, sake still largely dominated the consumption of alcoholic beverages (59% in 1940). Its share in consumption has nonetheless fell considerably, especially in the 70s and 80s, to stabilize since the mid-90s around 10%. It is mainly the daily consumption of cheap rice wines that has decreased. In this respect, the attitude of Japanese consumers is similar to that of European consumers regarding wine: people drink less but
better quality wines (Baumert, 2006). Another reason for the decline in domestic demand is the country's demographic collapse (population drops every year by several hundred thousand people for lack of births and immigration), particularly the decline in the working-age population who is the main consumer of alcoholic drinks (79 million today against a forecasted 52 million in 2050), and changes in consumption patterns, notably the lack of interest by the young generation, more kin on the consumption of spirits ("plum alcohol").

The number of sake breweries in Japan has dropped from 3,000 in the 70s to around 1,200 today. Domestic producers have realized that their own survival will, in the long run, be largely due to the internationalization of sake. This concern relates also to strategies adopted to revitalize the farming industry in Japan, which has been protected from global competition by heavy customs barriers and is still highly dependent on subsidy policies. A lot of efforts have been made to boost farming productivity and develop export markets before the country's entry into the Trans-Pacific Partnership (TPP) in 2016. In particular, a vast initiative to promote sake abroad has been launched by the government and the Japan External Trade Organization, as illustrated by sake tasting in Japanese embassies or the multiplication of commercial operations in wine Salons around the world.

Against this background, we suggest the first investigation of the determinants of sake exports in the world. We rely on data from the International Trade Center on volumes exported to the 30 largest sake importers over the 2001-2016 period, combined with information on standard trade determinants (GDP, GDP/capita real exchange rates, geographic distance), tariffs, importing countries' own alcohol production and potential prohibition due to religious factors. We will attempt to elicit the role of this factors – and notably to distinguish the role of physical distance and cultural proximity to other Asian countries that had a tradition of rice wine consumption. This comprehensive dataset is used to estimate a gravity model to disentangle the determinants of sake exports. We use state-of-the-art modelling with a gravity model à la Anderson and Van Wincoop (2003, 2004) estimated by Poisson pseudo-maximum likelihood following Santos Silva and Tenreyro (2006) in order to account for heteroskedasticity and the presence of zero trade flows.

This paper is positioned in the limited literature exploring the determinants of luxury alcoholic drinks, which includes the work of Crozet et al. (2012) on Champagne and of Bouët et al. (2017) on Cognac brandy. More generally, several studies have looked at wine exports in the world and highlight the role of usual determinants like trade costs and frictions, real exchange rates (Anderson and Wittwer, 2001 and 2013, Cardebat and Figuet, 2017, Robinson, 2009), quality (Chen and Juvenal, 2016), specific countries’ policies (like China’s forced reduction in the demand for luxury wine products, which has contributed to the recent collapse in Australian wine exports, cf. Anderson 2015), trade barriers (Dal Bianco et al., 2015) and border effects (Kashiha et al., 2016). Also, Carcillo et al. (2016) analyze the determinants and evolution of the global wine export dynamics and show that higher incomes, lower prices, cultural and geographical affinities, and trade agreements promote wine exports. Dascal et al. (2002) estimate a gravity model to analyze wine trade flows in twelve EU countries over 1989-97, highlighting the role of GDP per capita, remoteness, the depreciation of EU currencies and EU integration. Candau et al. (2017) analyze the determinants of demand using bilateral export prices for French producers selling to all importers worldwide over 2001-11 and focusing on importer specificities (taste, culture, etc.) and exporter-product characteristics (quality). Several studies explore the consumption dynamics and the fast globalization of the wine industry, with the democratization of wine consumption and the existence of new wine consuming countries, increased competition and the emergence of new producers and exporters in “new world” wine regions (Anderson
et al., 2003, Anderson and Nelge, 2011).

References