The Expanding Wine Industry in China: A New Competitive Threat?

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Abstract
While the worldwide wine industry has been suffering a prolonged price slump due to vastly increased plantings and production in countries such as Australia and the United States, China has been quietly ramping up its production of wine. During the last 10 years, there has been a remarkable increase in both the production and consumption of wine in China. This has been associated with rapid development of China’s economy and improvement of people living standards. Starting from a very small base with practically no history of wine production or consumption, China’s wine production has exploded from just over 200 million litres in 2000 to almost 665 million litres in 2007. The revenues from sales of wine increased from US$ 0.6 billion in 2000 to US$ 2.14 billion in 2007. Wine has accounted for an increasing proportion of alcohol consumption in China and has been the fastest-growing sub-sector in the food and beverage industry. Although per capita wine consumption in China remains far lower than what is observed in most western and high income countries, there are now more than 200 million consumers in China who can afford to purchase luxury goods. It is expected that wine consumption in China could increase at a 15% annual rate.

The purpose of this paper is to examine what has been driving the rapid development of the wine industry in China and to evaluate whether or not the vastly increased wine production in China is likely to become a threat to other wine producing regions in the world in the near future. By evaluating the potential risks to China’s producers of continued expansion, policy strategies are developed that would promote sustainable development of China’s wine industry.

There are ten main wine-producing regions in China that have soil and climatic
conditions suitable for producing almost any kind of grapes for wine production. With a total area in vineyards about three times that of Australia, but with present yields only about one-third those of Australia, it appears that production could increase greatly in the next several years as long as domestic demand continues to grow. Though quality remains a problem, the introduction of experienced vintners from wine-growing regions around the world is quickly increasing the drinkability of many Chinese wines. It would not be surprising to see some Chinese vintages do well in some international taste competitions. The low cost of production, based on low costs of land and labour, give Chinese wine producers a tremendous competitive advantage and make the exports to major wine drinking countries very likely in the future.