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# China's Wine Market: What Next?

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# China's Wine Market: What Next?

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# China's Wine Market: What Next?

**Kym Anderson**

The lifting on 28 March 2024 of China's punitive tariffs on wines imported from Australia, after 3.3 years, was met by a great sigh of relief from Australian vignerons. A surge in exports was reported in the following three months. But export growth has been more subdued since then, raising the question: how might this trade develop in the years ahead?

It's a critical question given the parlous state of Australia's wine industry at present, with many producers pondering whether this is the time to sell, or at least to change their land use away from red winegrapes because of the current global surplus of red wine.

The answer to such economic questions is always: it depends. To get a sense of what it depends on can be helped by looking at how China's market grew and then shrank over the past two decades in total, and how Australia's share of Australia's imports evolved in the lead-up to the tariff shock in late 2020. The first section below examines those trends. The second section puts China's alcohol consumption trends in international context, which suggests there is reason to expect its wine consumption to return to growth and for China to again become a substantial player in global wine markets over coming decades. The article concludes by recalling the numerous ways in which Chinese policies can affect not only the extent of future wine imports but also from which countries those imports come.

## **China's wine production, consumption and imports: a tale of inverted V's**

Wine production from *Vitis vinifera* grapes began in China more than two millennia ago, having been introduced from Central Asia before 200BC, but that wine would have been destined only for the ruling elite (Kupfer 2018; McGovern 2003, 2009).

The opening up of the Chinese economy in December 1978 triggered massive income growth and rapid urbanization, and with it the domestic demand for many manufactured products including alcoholic beverages. Annual per capita consumption of alcohol more than trebled over the first four decades of opening up, doubling for spirits (to 2.0 litres) and rising from near-zero to 1.4 litres for beer. Alcohol from wine consumption also rose, but from a miniscule base in 1978 to a peak of just 0.1 litres in the 2010s (Figure 1(a)).

[insert Figure 1 around here]

The domestic demand for wine began to grow following a speech by Premier Li Peng in 1996, in which he pronounced that red wine was good for health. The demand that comment stimulated was initially satisfied almost exclusively by growth in local production. But in December 2001 China joined the World Trade Organization, reducing its MFN tariff on wine imports from 65% to just 14% for bottles and 20% for bulk wine. And in November 2005 China signed a free trade agreement with Chile, providing it with duty-free access to China's wine market.

In response to that growth in demand, domestic production began to rise rapidly from the mid-2000s. However, wine imports expanded rapidly as well. Together those changes contributed to apparent wine consumption trebling in the decade to the mid-2010s (Figure 2). (The adjective 'apparent' is important to keep in mind though, because in the absence of direct estimates, China's wine consumption is estimated indirectly as production plus net imports. That estimate cannot account for annual changes in domestic stocks of wine held by

producers, importers, distributors and retailers, as there are no reliable stocks data available. Actual consumption may have been considerably less in the late 2010s and somewhat more in the present decade that suggested by Figures 1 and 2.)

[insert Figure 2 around here]

Since then China's apparent wine consumption has slumped, and just as quickly as it had grown to the mid-2010s. Both trends are unprecedented. Wine's share of alcohol consumption had risen from 1% to 4% in the first 15 years of this century, but it was back to 1.3% in 2023 (Figure 1(b)).

Domestic wine production, meanwhile, peaked even earlier than consumption. Presumably new investors discovered that grape growing and winemaking were not as profitable as other areas of investment. That was felt particularly as competition from imports heated up during the 2010s – especially from Australia from late 2015 when the China-Australia Free Trade Agreement came into force. As a consequence, the share of imports (net of a tiny amount of exports) in China's wine consumption rose during the 2010s from around one-fifth to almost three-fifths (Figure 2).

China represented less than 0.5% of the value of global wine imports prior to 2006; but that share rose to 8% by 2017, before falling to less than 3% in 2023 (Figure 1(b)).

Associated with those changes in imports, plus the huge decline in the share of imports coming in bulk containers and thus the increase in the average price of imports (Figure 3), were considerable changes in the shares of imports from key wine-exporting countries. Australia's share had risen by 2020 to one-quarter in volume terms and more than one-third in value terms, making it the largest supplier to China as COVID-19 hit (Figure 4).

[insert Figures 3 and 4 around here]

Wine consumption began to decline when Xi Jinping became President at the end of 2012 and cracked down on corruption and spending on luxuries, including official banquets. This was felt most by importers of fine wines, particularly from France and especially in 2014. Meanwhile, younger consumers in China were increasing their interest in value-driven wines, a key beneficiary being Australia. Casella's [yellow tail] brand has been second only to Treasury Wine Estates' Penfolds brand in selling Australian wine to China.

When COVID-19 hit in 2020, consumers were unable to eat out. That caused their purchases of wine to shrink precipitously (Figure 2), because in China wines to date have been much more-commonly consumed away from home than are beer and spirits. True, other alcohol consumption also fell due to both COVID lockdowns and the slowdown in consumer spending generally as the housing crisis dampened confidence, but the fall in Chinese consumption between 2019 and 2023 was far larger for wine (59%) than for spirits (24%) and beer (9%) (Anderson and Pinilla 2024).

Exporters of Australian wine were effectively denied access to the Chinese market by punitive tariffs of up to 218% on their bottles (foreshadowed in late 2000 and formalized in March 2021, following intense lobbying by the China Alcoholic Drinks Association). That gave other exporters a chance to boost at least their shares of that declining market. In 2018-20, Australian wine accounted for one-third of the value of China's wine imports, or about six times China's share of global wine imports (double the intensity as of 2015 when the China-Australia FTA was signed). During the next three years, Chile and France each nearly doubled the intensity of their wine trade with China (Figure 5).

[insert Figure 5 around here]

## **Short- to medium-term outlook**

When the tariffs on Australian wine were removed at the end of March 2024, Australia began to claw back to its previous dominant place. But the overall size of China's wine market has been rising much more slowly post-COVID than was expected. At least three factors are at play in reducing China's wine demand growth.

One is the large stocks of unsold wine sitting in warehouses waiting for a post-COVID recovery.

Another is the surplus housing crisis, which is sapping the confidence of consumers and investors – one consequence of which is a slowdown in economic growth to less than half the pace of the first thirty years of opening up.

And thirdly, trade tensions with the US and EU are rising and bringing with them greater uncertainty. Donald Trump's election to the US presidency has added to that tension and uncertainty.

But this short-term outlook is not very relevant to those wine exporters who understand that one needs to invest long-term in building partnerships with Chinese importers, distributors and retailers. Of much more relevance to those able and willing to make those investments over coming years is the longer-term growth outlook.

### **Longer-term outlook: China's alcohol consumption in international perspective**

Perhaps the two biggest determinants of future growth in China's wine demand is growth in the country's income per capita (since its population growth is now close to zero), and changes in preferences among alcoholic beverages.

One comparative analysis found that the *volume* of alcohol consumption per capita tends to rise until a country reaches twice the global average income. It also found that national *expenditure* per capita on alcohol typically rises until a country reaches around four times the global average income (Holmes and Anderson 2017). Since China's national income per capita currently is almost the same as the average for the world at just above \$20,000 (PPP international dollars, see World Bank 2024), that suggests the country's alcohol consumption will continue to rise for decades to come.

That same comparative analysis by Holmes and Anderson (2017) divided countries into three groups, based on their consumers' beverage preference in the early 1960s, namely spirits-focused, beer-focused, and wine-focused. China was an extreme case in the first category. Like other spirits-focused countries, and consistent with the expectation that consumer exposure via globalization leads to convergence in preferences (Stigler and Becker 1977), China's consumers have been converging toward the global average beverage mix. But that has been happening much faster in terms of beer than wine (Figure 6). Given also that China's wine consumption per capita is only one-ninth the global average (Anderson and Pinilla 2024), that suggests huge scope remains for wine market growth in China.

[insert Figure 6 around here]

Further support for the argument that there is huge scope for China's wine consumption to expand is provided in Figure 7. It reveals that the quantity of apparent wine consumption in Hong Kong, and its average price, are more than five times those indicators for mainland China. The differences are not surprising given that the average income in Hong Kong is about four times that of the mainland, and it receives proportionately more high-spending tourists. The main point, though, is the potential it exposes for very substantial wine sales growth in China (and also in Southeast Asia – see Anderson 2020) as per capita income rises in coming decades.

[insert Figure 7 around here]

## The potential for policies to further disrupt China's wine trade

Government policy changes and pronouncements can of course disrupt the prospective trends outlined above. As in the past, some could boost Australian wine exports (as with Peng's praising of red wine in 1996 and the signing of the China-Australia FTA in 2015), while others could dampen that trade (as with Xi's frowning on conspicuous consumption from 2013 and China's punitive tariff on imports of Australian wine). Serious long-term investors in this trade will build their capacity to roll with such disruptions in the knowledge that the main driver of long-run growth will be real growth in China's per capita income.

## Acknowledgements

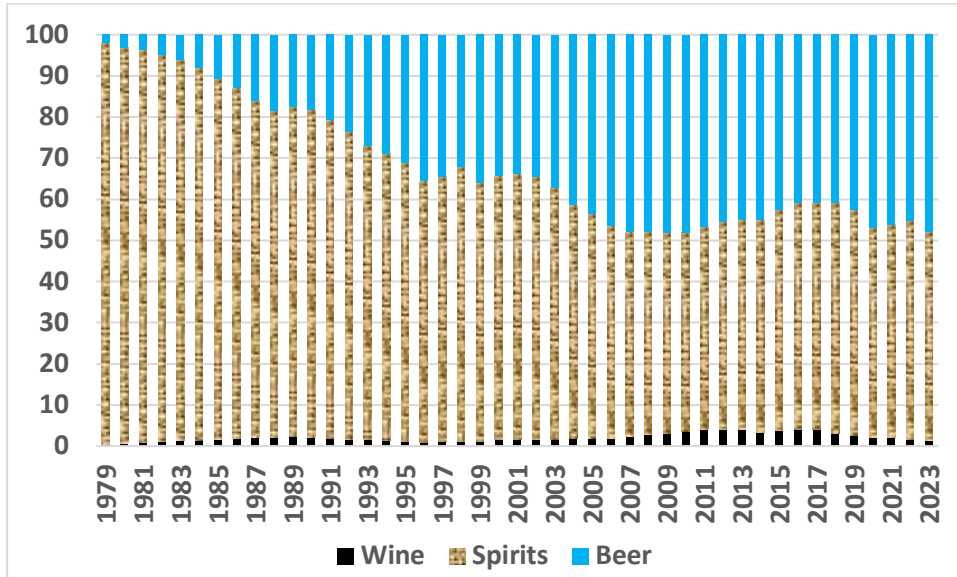
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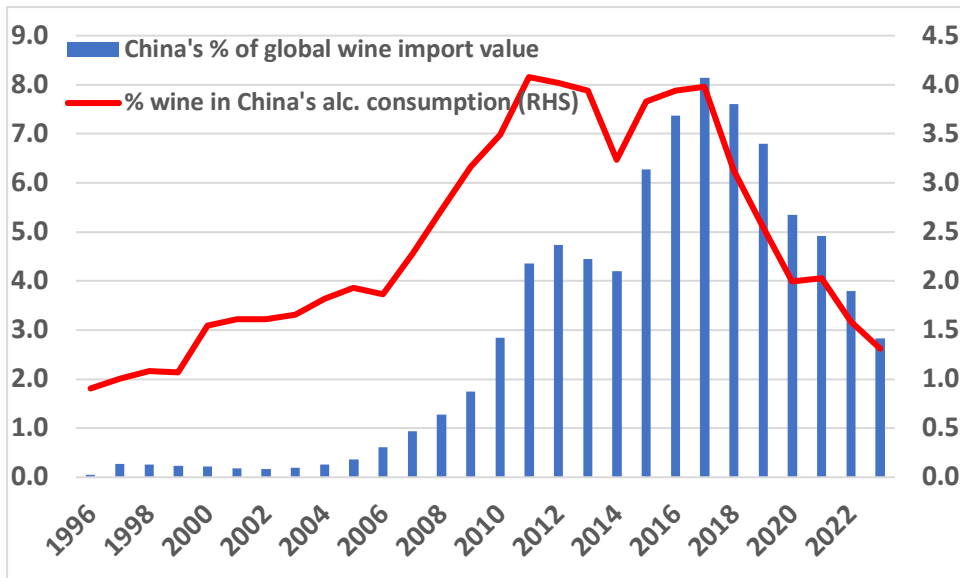
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Figure 1: Shares of spirits, beer and wine in China's total alcohol consumption<sup>a</sup> and of China in the value of global wine imports, 1979 to 2023 (%)

(a) Shares of spirits, beer and wine in China's total alcohol consumption (%)



(b) Shares of wine in China's total alcohol consumption and of China in the value of global wine imports (%)

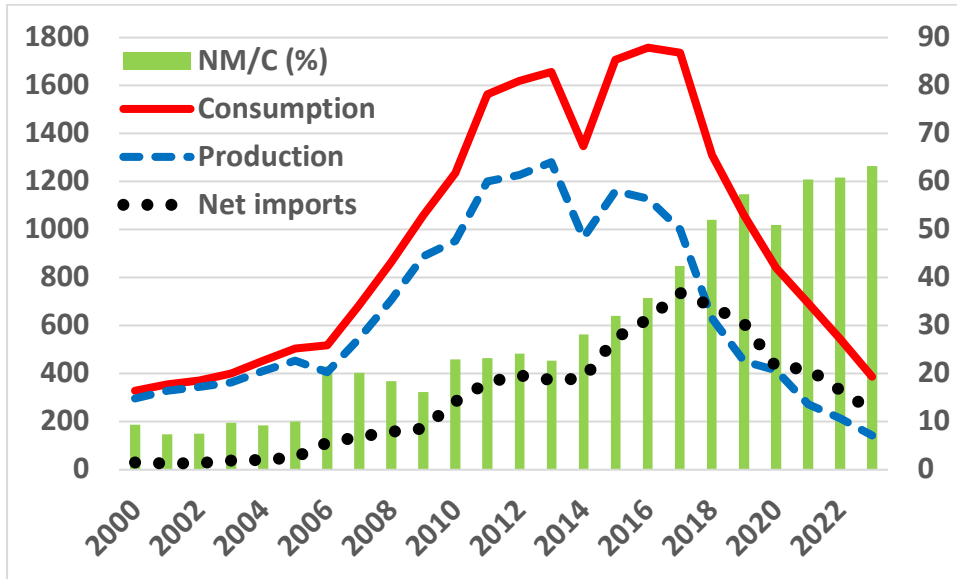


<sup>a</sup> For wine, consumption is estimated as production plus net imports and thus does not account for annual changes in domestic stocks of wine held by producers, importers, distributors and retailers.

Source: Anderson and Pinilla (2024).



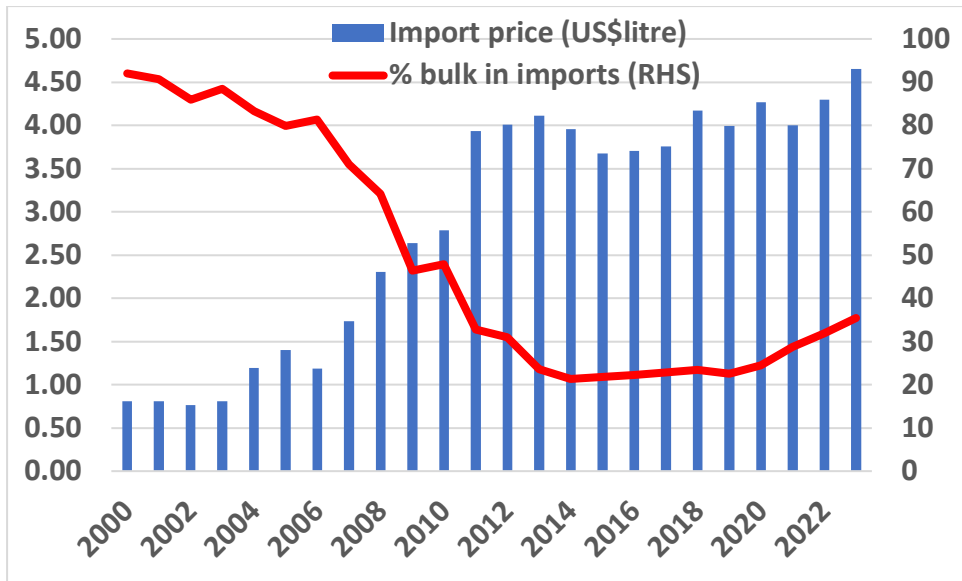
Figure 2: Volume of China's production, net imports and apparent consumption<sup>a</sup> of wine, 2000 to 2023 (ML)



<sup>a</sup> Consumption is estimated as production plus net imports and thus does not account for annual changes in domestic stocks of wine held by producers, importers, distributors and retailers. The production data from 2019 are from China Alcoholic Drinks Association.

Source: Updated from Anderson (2023).

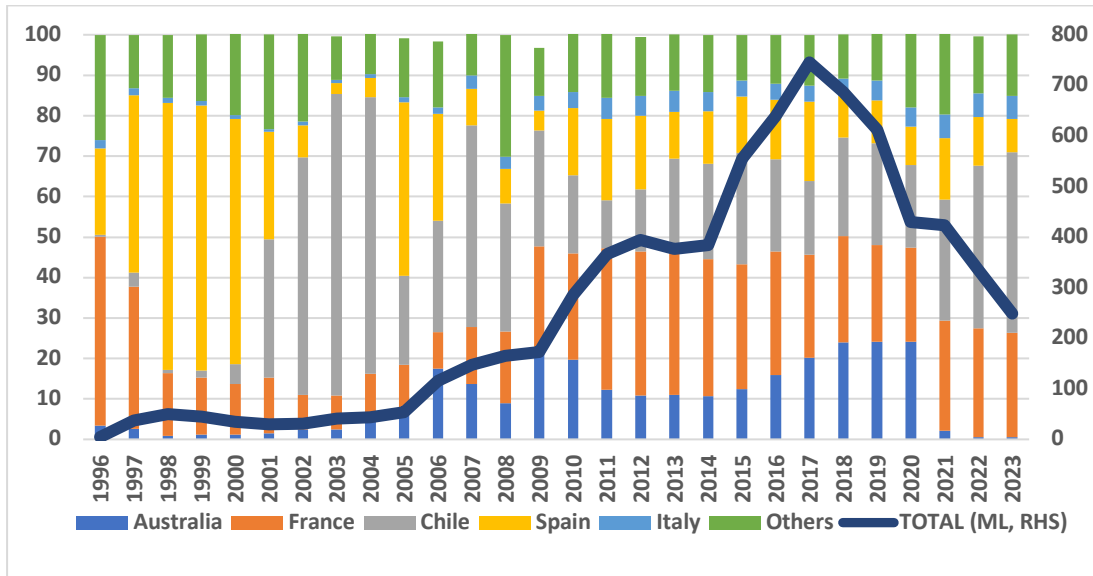
Figure 3: Average price of China's wine imports and volume share in bulk (US\$/litre and %)



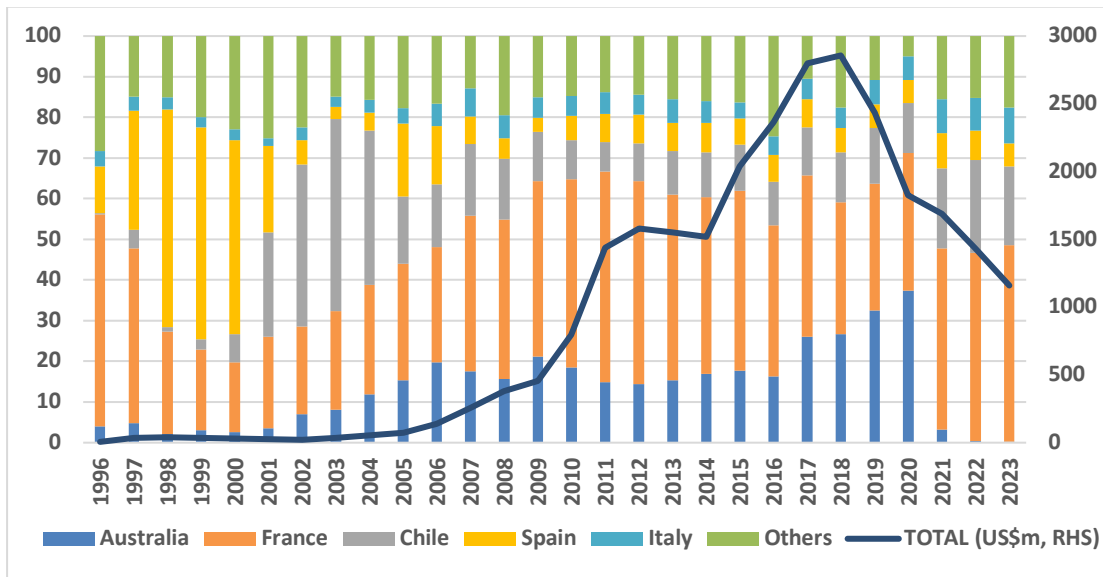
Source: Anderson and Puga (2024).

Figure 4: Volume and value of China's wine imports, total and shares by key source countries, 2000 to 2023 (ML, US\$ million and %)

(a) Volume

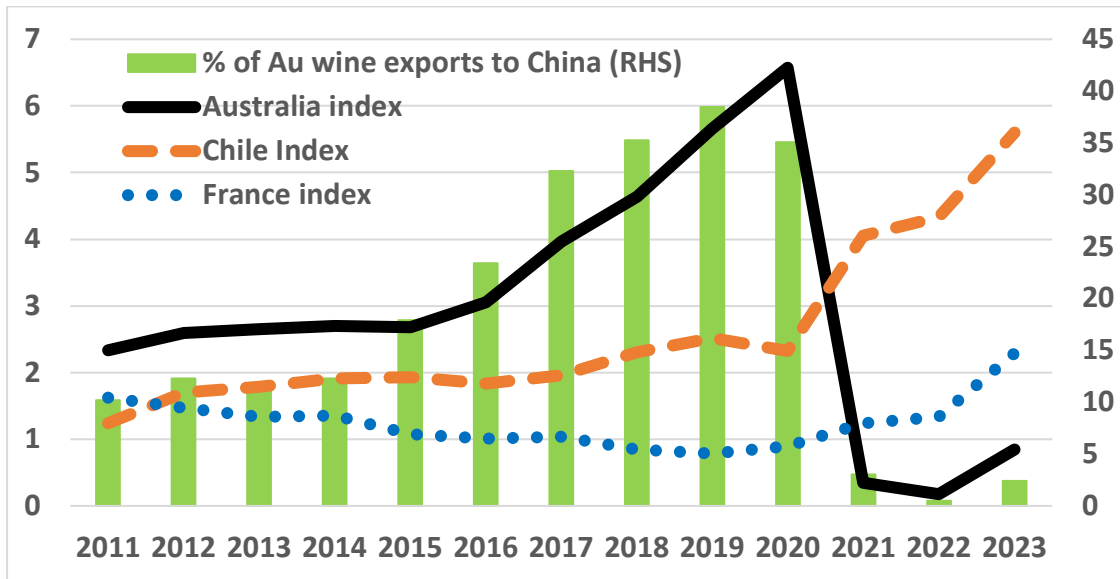


(b) Value



Source: Anderson and Puga (2024).

Figure 5: Index of intensity<sup>a</sup> of wine exports to China from Australia, Chile and France, and share of Australia's wine exports going to China, by value, 2011 to 2023

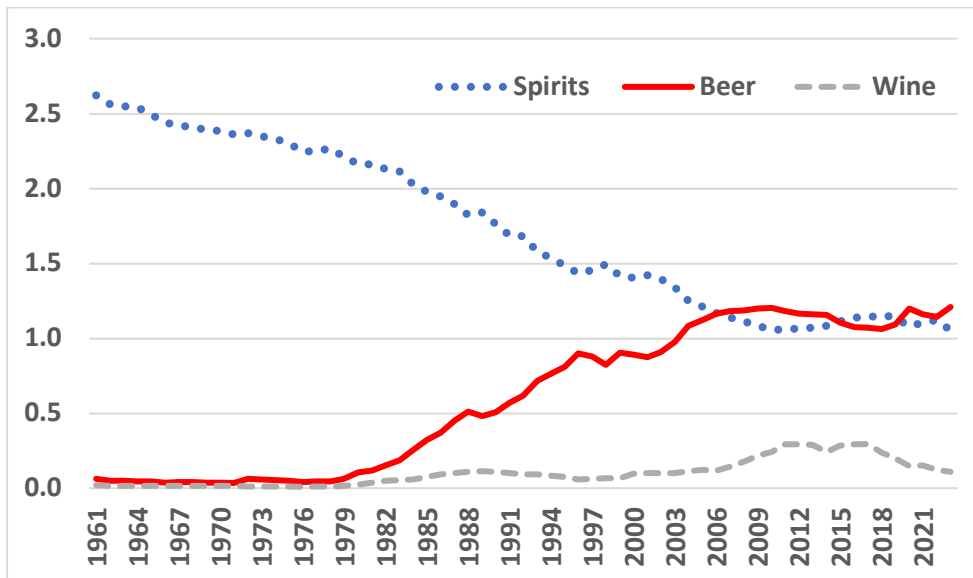


<sup>a</sup> Share of the value of country *i*'s wine exports going to country *j* divided by country *j*'s share in the value of global wine imports.

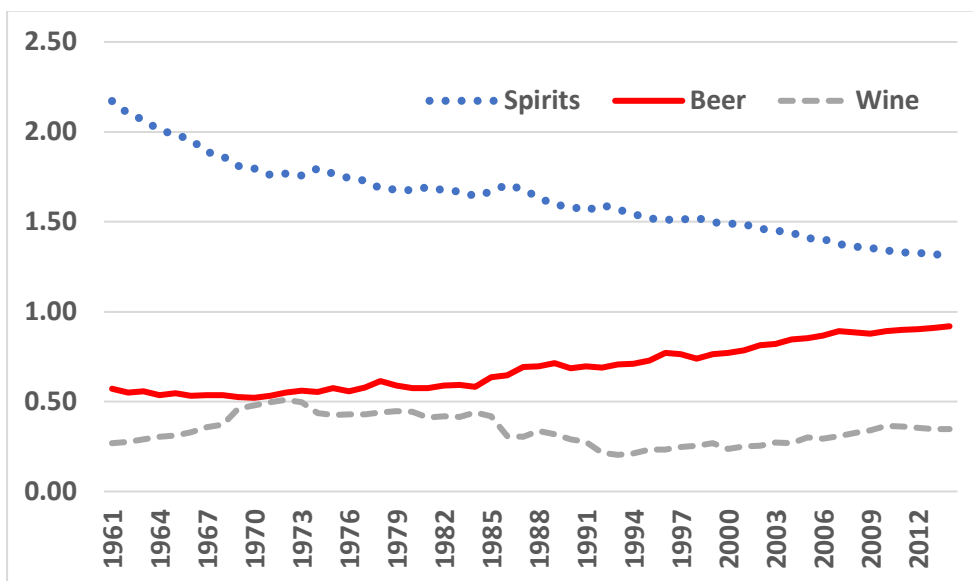
Source: Updated from Anderson (2023).

Figure 6: Intensities of wine, spirits and beer in total alcohol consumption, China and all spirits-focused countries, 1961 to 2023 (world = 1.0 for each beverage)<sup>a</sup>

(a) China



(b) All traditionally spirits-focused countries<sup>b</sup>

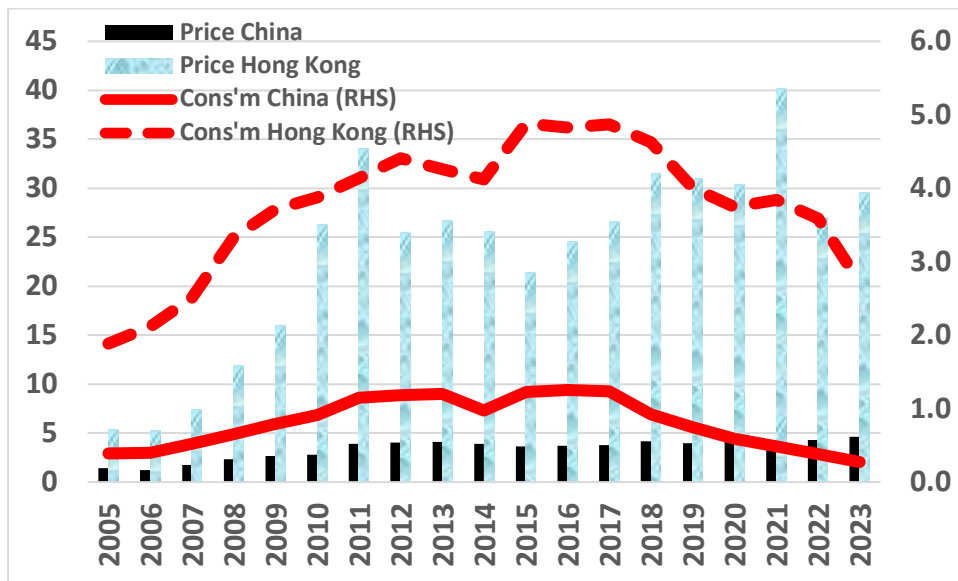


<sup>a</sup> The intensity index is defined as the fraction of spirits, beer or wine consumption in total national alcohol consumption volume in country *i* divided by the fraction for that same beverage in world total alcohol consumption.

<sup>b</sup> Spirits-focused countries as of 1961-64 include Brazil, China, Finland, Hong Kong, India, Japan, Korea, Norway, Philippines, Russia, South Africa, Sweden, Taiwan, Thailand, Ukraine, Western Europe other than its wine- and beer-focused countries, and Asia other than its wine- and beer-focused countries.

Source: Updated from Holmes and Anderson (2017) using data in Anderson and Pinilla (2024).

Figure 7: Average wine import price and per capita consumption volume,<sup>a</sup> China and Hong Kong, 2005 to 2023 (US\$/litre and litres)



<sup>a</sup> Consumption is estimated as production plus net imports and thus does not account for annual changes in domestic stocks of wine held by producers, importers, distributors and retailers in either Hong Kong or mainland China.

Sources: Anderson and Puga (2024) and Anderson and Pinilla (2024).