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What's Happened to the Wine Market in China?

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Abstract

China has been one of the most important sources of growth in global wine demand this century, accounting by 2017 for 7% of the world's wine consumption and imports. But since then China's per capita wine consumption has fallen every year and in 2022 was one-third of its 2017 peak, and its imports have more than halved. Certainly the COVID-19 disruption and associated slowdown in China's income growth would account for some of that, but the fall in China's alcohol consumption between 2019 and 2022 was considerably larger for wine (49%) than for spirits (14%) and beer (3%). Thus wine's share of alcohol consumption in China fell by two-fifth over those three years. The article speculates on reasons behind the dramatic downturn, and finishes by drawing implications for wine-exporting countries.

Keywords: Chinese alcohol consumption, wine imports by China, wine production in China

JEL Classifications: D12, F13, F14, Q17

What's happened to the wine market in China?

I. Introduction

China has been one of the most important sources of growth in global wine demand this century (Anderson and Wittwer 2015; Anderson 2020). By 2017 it accounted in volume terms for 7% of the world's wine consumption and imports (Anderson and Pinilla 2021). That importance has since plummeted. This article brings together disparate data to summarize the extent of that demise, and to speculate on the reasons behind it.

All wine-exporting countries have an interest in this development, but especially Australia because (a) it was by far the most exposed to that market, accounting for two-fifths of the value of China's wine imports in the late 2010s, and (b) it was hit in late 2020 by a set of punitive tariffs of up to 218% on China's imports of its wines.¹ That bilateral trade flow – worth around US\$750 million per year – virtually disappeared in 2021. Some Australian exporters found markets elsewhere as other countries expanded their wine exports to China, but global exports of wine were projected (using the Wittwer and Anderson (2020) model of global beverage markets) to fall by more than US\$200 million and Australia's average producer prices of grapes and wine to fall by 11-12% as a consequence of that tariff shock (Wittwer and Anderson 2021a), and more so for reds because China's wine imports are more than 80% red.

With ministerial meetings being renewed between Australia and China in mid-2023, there is speculation as to whether China might soon remove its high tariff on Australian wine. Many imagine that if it did, that would see an immediate reduction in the excessive stocks of red wine that are accumulating in Australia as a consequence of that tariff (see Wine Australia 2022), and an eventual rebuilding of the country's total wine exports. However, even if those punitive tariffs were to be removed this year, the trade with China is likely to become only a fraction of what it was in the late 2010s, thanks to the recent shrinkage in the overall wine market in China – something that was exacerbated by COVID-19 (Wittwer and Anderson 2021b) but began years before that pandemic.

¹ This was the beginning of a period of Chinese economic coercion against Australia for its Prime Minister having called for an international enquiry into the origin of the COVID-19 pandemic.

This article begins by explaining the nature of wine statistics in China before providing estimates of key indicators of the Chinese wine market to show how much smaller that market has become. It then speculates on reasons behind the downturn, and finishes by drawing implications for wine-exporting countries including Australia.

II. Wine statistics for China

Compiling statistics on China's wine market is a fraught business. While official trade statistics may be reasonably reliable (apart from unmeasurable smuggling from Hong Kong), annual wine production and consumption estimates vary hugely across sources. Historically, the government's national production statistics have relied on provincial government data, but they may well have been inflated for at least two reasons. One is because much of the wine that is imported by China in bulk containers is bottled as is or blended with domestic wine, and then sold in bottles labelled 'Product of China'. Another reason is that some wine is internally traded between provinces in bulk before being bottled but is counted as output in the source province as well as the destination province – a case of double-counting (Anderson and Harada 2018).

The UN's Food and Agriculture Organization (FAO) provided official government wine production statistics up to 1990 but then only its own rounded estimates, the most recent being exactly 2 million tonnes for 2020 which is more than treble the likely number (FAO 2023). The International Organization of Vine and Wine (OIV) used to adopt FAO numbers but now generates its own much lower estimates (OIV 2023). Meanwhile the National Bureau of Statistics of China (NBSC) has generated a new set of data that in recent years are considerably lower than even OIV (2023) numbers. However, if the OIV production numbers are discounted by the extent of China's bulk wine imports, for the reason mentioned in the previous paragraph and by Anderson and Harada (2018), they come close to the NBSC data (see this article's Appendix Table). Hence the new NBSC production data are adopted here and, together with UN COMTRADE-based international trade data, are used to estimate China's wine consumption as production plus imports net of exports. That does not take account of changes in stocks, but there are no reliable data on wine stocks in China. Nor are

smuggled wine imports from Hong Kong or Macao able to be included in the estimate of China's wine consumption.²

III. Wine market shrinkage in China

Based on the above data considerations used to generate this article's Appendix Table, we estimate that China's per capita wine consumption has fallen every year since its peak in 2017 and in 2022 was just 30% of that peak. Import volumes also peaked that year, but they have dropped by 55% since 2017. Imports from Australia (the lead supplier) kept rising until 2018, then dropped along with total imports in 2019 and 2020 before collapsing in 2021. China's local wine production, which began declining after 2015 according to NBSC, continued – and its pace of decline slowed only slightly following the imposition of the tariff on Australian wine from late 2020 (Figure 1).

[insert Figure 1 around here]

Thus China's shares of world wine production, consumption and import volumes peaked in 2016-17 and they have more than halved since then (Table 1). Even so, the share of the value of Australia's wine exports going to China continued to rise and averaged 36% during 2018-20, or nearly six times China's value share of global wine imports. Other suppliers, by contrast, were much less exposed, including the two next-largest: the share of France's exports going to China remained similar to China's share of world imports, and Chile's remained about twice China's share of world imports, until both exporters' shares rose in 2021 and 2022 when the punitive tariffs choked Australian exports (Figure 2).

[insert Table 1 and Figure 2 around here]

Within China, wine's share of total alcohol consumption by 2022 was less than half its peak in 2016. Of course the COVID-19 disruption and associated slowdown in China's income growth accounts for some of that (Wittwer and Anderson 2021b), but the fall in China's alcohol consumption between 2019 and 2022 was considerably larger for wine (49%) than for spirits (14%) and beer (3%). Thus wine's share of alcohol consumption in China fell by two-fifth over those three years, according to the data in Table 2.

[insert Table 2 around here]

² The final consumption estimates in the Appendix Table are thus underestimated to the extent of that smuggling. The underestimation would be quite small though, because the volume of net imports of wine by Hong Kong plus Macao have averaged only 7% of the net imports of mainland China since 2000, according to UN COMTRADE-based data available at FAO (2023).

IV. Why the decline?

The decline in China's local wine production may be a consequence of new domestic producers disinvesting because their earlier profit expectations were not realized. The production decline might have slowed once the tariff was imposed on imports from Australia, had it not coincided with COVID. China's wine consumption volume began declining four years before COVID began to disrupt sales. Part of that (and of the decline in domestic production?) could be attributed to the austerity measures introduced by President Xi from 2013 that frowned upon lavish official dinners and other conspicuous consumption and gift-giving. However, the decline in sales volume was much faster for wine than for beer and spirits (Table 2). That suggests there has been either a taste swing against wine (because it is viewed politically as an exotic product?) and/or a shift from quantity to quality (a greater premiumization of preferences for wine than for beer or spirits).

V. Implications for wine-exporting countries

These downward trends in China's wine market may reverse a little as incomes recover somewhat following the abandoning in late 2022 of the country's draconian COVID lockdowns. The OECD (2023) expected China's real GDP growth rate to rise from 3% in 2022 to 5% in 2023 and 2024, although more-recent forecasts are a little lower. Even so, the volume of China's wine imports in the short term is unlikely to become much more than half what it was at its peak.

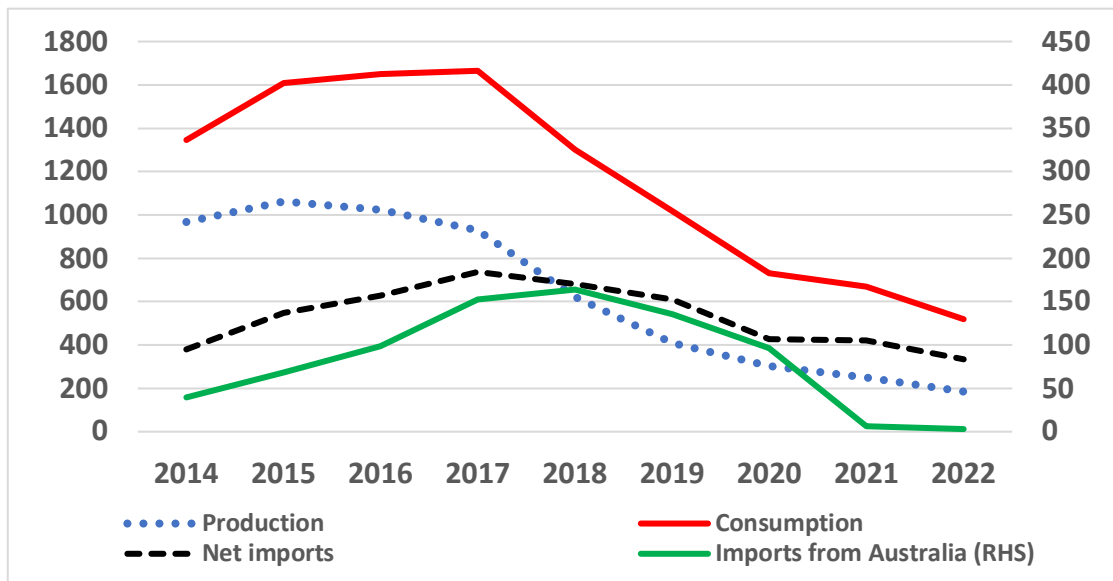
So even if Australia were to be able to claw back its 2018-20 *share* of China's wine imports (one-quarter by volume, a little over one-third by value), that would amount to an export increase of not 130ML or US\$750 million per year but perhaps only half those amounts. Even that may be too optimistic as a short-term forecast, because numerous Australian wineries that have invested in developing new markets after 2020 may be reluctant to go back to the now-less-reliable Chinese market. Selling excess stocks of red wine in bulk to China would provide some relief to tanks in Australia, but both the volume and price may be low: in 2020 and 2021 China imported little more than 100 ML/year in bulk, and at an average price of just 88 US cents per litre. All this vindicates the move by Australian vignerons since 2020 to diversify their exports to other markets in Asia, North America and Europe – even though, over the longer term, China's wine market will likely expand as

incomes rise and the quality of local production improves and entices more consumers to include wine in their beverage consumption bundle.

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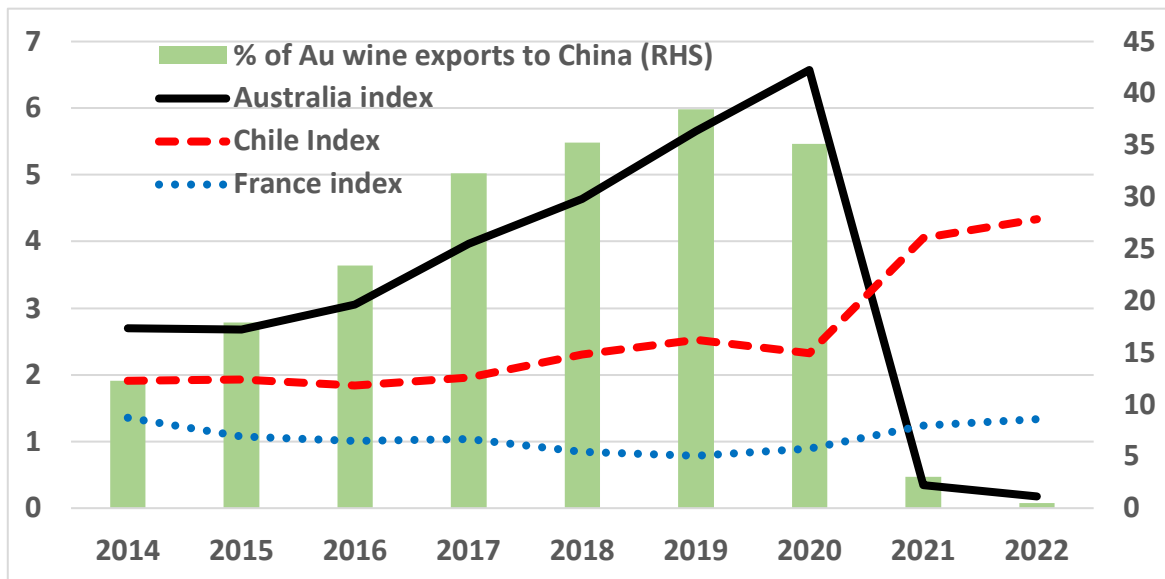
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Figure 1: China's wine production and consumption, and net imports from the world and from Australia, 2014 to 2022 (ML)



Sources: See the Appendix Table.

Figure 2: Index of intensity of wine exports to China from Australia, Chile and France,^a and share of Australia's wine exports going to China, by value, 2014 to 2022



^a Defined as the value share of a country's wine exports to China divided by China's share of the value of global wine imports.

Source: United Nations (2023).

Table 1: China's shares of world wine production, consumption and import volumes, 2014 to 2022 (%)

	China's shares of the volume of world wine:		
	Production	Consumption	Imports
2014	4.0	5.6	3.6
2015	4.0	6.7	5.2
2016	4.0	6.8	6.0
2017	3.7	6.7	7.0
2018	2.1	5.4	6.5
2019	1.6	4.3	5.8
2020	1.2	3.1	4.1
2021	1.0	2.9	4.0
2022	0.7	2.2	3.2

Source: Estimated using part (c) of the Appendix Table and updated global data from Anderson and Pinilla (2021).

Table 2: Wine's share in the volume of alcohol consumption in China (%), and China's per capita consumption of alcohol by type (litres of alcohol/year),^a 2014 to 2022

	Wine's % of China's alcohol consumption:	China's per capita alcohol consumption (l/yr):			
		Beer	Spirits	Wine	TOTAL
2014	2.9	1.6	1.9	0.12	3.6
2015	3.1	1.5	1.9	0.14	3.5
2016	3.3	1.5	2.0	0.14	3.6
2017	3.2	1.5	2.0	0.14	3.6
2018	2.7	1.4	2.0	0.11	3.5
2019	2.5	1.4	1.9	0.09	3.4
2020	2.1	1.4	1.6	0.06	3.1
2021	2.0	1.3	1.5	0.06	2.8
2022	1.5	1.4	1.6	0.04	3.0
<i>2022 as % of 2019</i>	<i>60</i>	<i>97</i>	<i>86</i>	<i>51</i>	<i>88</i>

^a Wine is assumed to average 12% alcohol, beer 4.5% and spirits 40%.

Source: See part (c) of the Appendix Table for wine data; beer and spirits data are from an update of Anderson and Pinilla (2021).

Appendix Table: China's wine production estimates, trade and apparent consumption, 2014 to 2022 (ML, litres and %)

(a) OIV prod'n and UN COMTRADE trade data (b) Assuming bulk imports blended with local wine (c) China's official local production

	Prod'n (ML)	Exports (ML)	Imports (ML)	<i>Bulk (%) of imports</i>	Prod'n (ML)	Consm (ML)	Consm p.c. (L)	SSR (%)	Prod'n (ML)	Consm (ML)	Consm p.c. (L)	SSR (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
2014	1350	4	384	21	1268	1648	1.19	77	967	1347	0.97	72
2015	1335	8	555	26	1188	1735	1.25	68	1062	1609	1.15	66
2016	1322	10	638	22	1179	1807	1.29	65	1023	1651	1.18	62
2017	1164	9	746	24	985	1721	1.22	57	928	1665	1.18	56
2018	927	6	687	23	766	1447	1.02	53	621	1302	0.92	48
2019	784	3	612	23	646	1255	0.88	51	410	1019	0.72	40
2020	659	2	430	24	554	983	0.69	56	304	732	0.51	42
2021	591	4	424	29	468	888	0.62	53	249	669	0.47	37
2022 ^p	418	3	337	25	334	668	0.47	51	185	519	0.36	36

^a Consm in column 6 or 10 is apparent consumption in ML, calculated as production (in column 5 or 9) plus imports minus exports (from columns 2 and 3); Consm p.c. (litres per capita) in column 7 or 11 is apparent consumption in column 6 or 10 divided by total population; and SSR, the wine self-sufficiency ratio in column 8 or 12, is production in column 5 or 9 divided by apparent consumption in column 6 or 10 (expressed as a percentage).

^p Preliminary, pending final trade data for 2022.

Source: Authors' calculations starting with production reported, respectively, by the International Vine and Wine Organization (OIV 2023) for column 1 (and adjusted for column 5) and NBSC (2023) for column 9. Trade numbers are from the COMTRADE database of the United Nations (2023).