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New wine world from China: An analysis of competitiveness of the wine industry in Ningxia

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ABSTRACT

Recently China not only attracts the attention as a huge wine consumer market but also shows its potential to be an important wine producer. China has the fifth largest global wine consumption and the largest global red wine market (OIV,2015) while most of the wine consumed (more than 80%) is being produced domestically. With the growing economy and technical advance, the Chinese domestic wine industry has a significant development. Now China has the second largest vineyard area just after Spain and the eighth largest wine production of the world(OIV, 2015). The Chinese wine industry has flourished across the broad territory from the east costal area to the west desert area with distinct climatic and geographic conditions. Ningxia is one of the leading wine regions in China which has been the first province region as an observer of the International Organization of Vine and Wine (OIV) since 2012 and has a potential to produce the best wine of China.

The present work is aimed to make a review of the local wine industry development in China using Ningxia as a study case with a collection of secondary data and analyze factors that affect the competitiveness of the wine industry of Ningxia with the application of the Porter's Diamond Model.

KEY WORDS: *Wine industry, China, Ningxia, Competitiveness, Diamond model*

INTRODUCTION

Ningxia Hui Autonomous Region, one of the five autonomous regions, is located in the north-west of China where the Yellow River flows through vast fertile lands with an area of 66,000 square kilometers and a population of 6.6 million. The local wine industry started in the 1980th and scaled up in the 1990th meanly established as wine grape providing base for Chinese big wine brands such as Changyu, Greatwall and Dynasty (Hao et al. 2015). The main wineries distribute along the eastern slopes of the Helan Mountains where the vineyards benefits of suitable earth and climate condition and available irrigation by the Yellow River. From the official publication Ningxia Yearbook, in 2012 Ningxia had been the largest high quality wine producing area of China with 510,000 Mu (34,000 ha) of planted grape of which 440,000 Mu (29,333 ha) were winery grape. In 2014 the total acreage of wine grapes had reached 393,000 ha (Hao et al. 2015). The number of wine processing enterprises increased from only 3 in 2002 to 52 in 2012 (Yearbook of Ningxia, 2013).

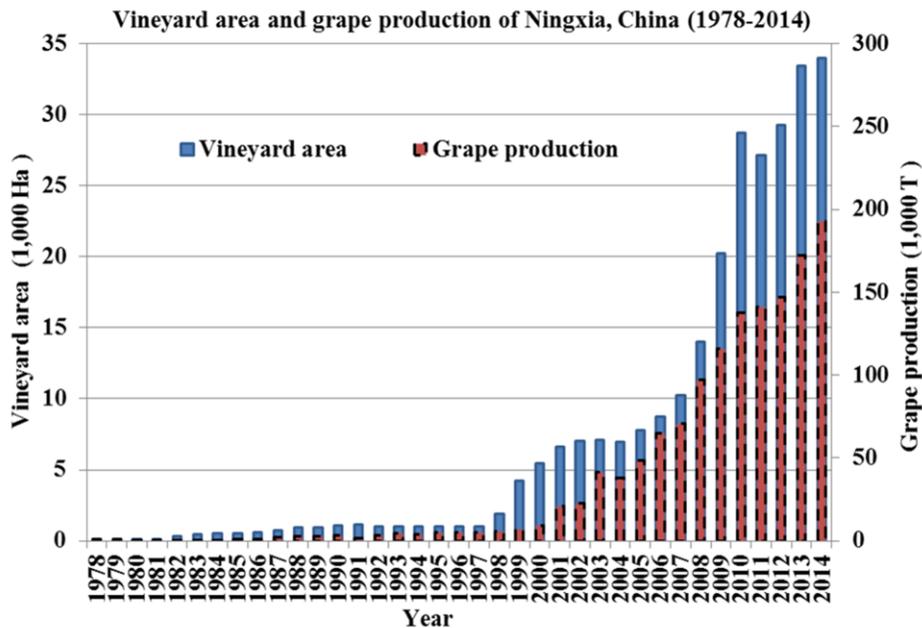


Figure 1 Vineyard area and grape production of Ningxia, China. Source: National Bureau of Statistics of China (2016)

With the data from National Bureau of Statistics of China, in the 1978 when China began to reform and to open the national door to the outside world the vineyard acreage of Ningxia was 130 ha while the wine production amount was 800 T. However, in 2012 the total vineyard acreage increased to 29,220 ha and the wine production amount increased to 146,900T (National Bureau of Statistics of China, 2015). The dramatic growth after 1998 is obvious and even though slowed down in 2007 for the global financial crisis it recovered rapidly and keeps the fast development.

Domestically the Helan Mountains East Piedmont of Ningxia has been the third wine producing region after Yantai (Shandong Province) and Changli (Hebei Province) to get the National Geographical Indication Products of China. Not surprisingly, the new promising wine producing area of Ningxia highly attracts the international attention considering the excellent wine producing conditions as well as the huge Chinese domestic wine market. In 2012, the first edition of the Helanshan Mountains East Piedmont Wine Festival aimed to celebrate the prosperous industry of Ningxia and seek more international cooperation in which participated the OIV President Claudia In é Quini and the Director General Federico Castellucci was held in Yinchuan the capital city of Ningxia. Not long before, Ningxia became one observer of the International Organization of Vine and Wine (OIV) (OIV, 2015).



Figure 2 Wine producing region of Ningxia China

METHODOLOGY

Michael Porter had articulated his extensive empirical studies of distinct nations and distinct sectors in a simple and highly influential model as “Diamond Model” in 1990. This model has been used in various ways including the study of competitiveness of wine industry. According to Porter’s Diamond Model, there are four determinants of national advantages-Factor conditions (Natural Resources, Human Resources, Knowledge Resources, Capital Resources, Infrastructure); Demand conditions; Related and supporting industries; Firm strategy, structure and rivalry and two additional variables-Government and Chance. Secondary data was collected from websites, literature review and government informs.

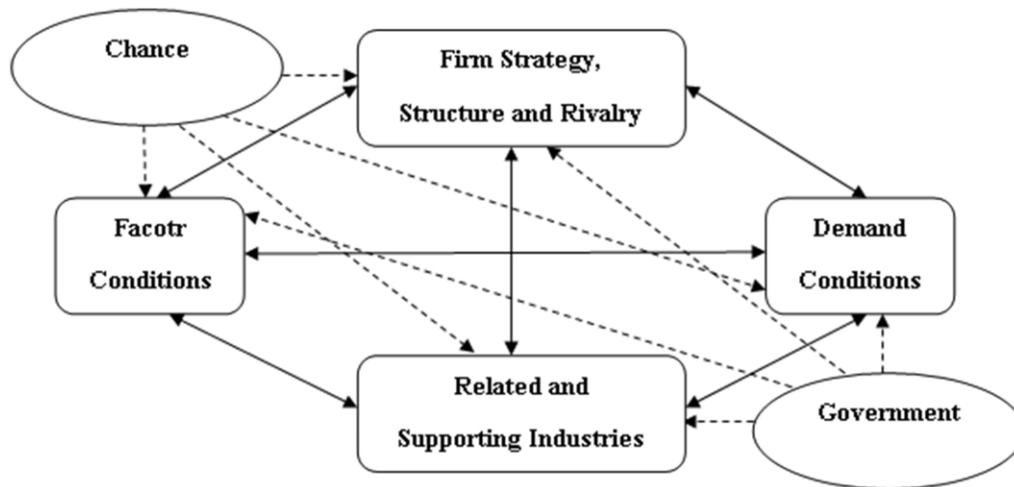


Figure 3 Diamond Model of Porter

RESULTS

Factor conditions

Table 1 Factor conditions of Ningxia

Factor Conditions	Ningxia
Natural Resources	Helan Mountains East Piedmont (NL: 37°43'-39°23' EL: 105°45'-106°47'): 1) Suitable climatic conditions a. Mild temperature and suitable diurnal temperature (10-15°C); annual accumulated temperature (>10 °C) is

	<p>around 3300°C</p> <p>b. Dry area and annual precipitation is around 200mm</p> <p>c. Abundant sunshine resource(around 3030 hours annually)</p> <p>Suitable planting conditions</p> <p>d. Vast available arable land(133,000ha)</p> <p>e. Abundant water resources for irrigation by Yellow River</p> <p>f. High quality soil for wine grape planting with necessary minerals</p> <p>2) Winery resource</p> <p>a. Grape yard 39,333 ha(2015)</p> <p>b. Grape production 34,400 tons(2014)</p> <p>c. Winery yard 34,000 ha(2015)</p> <p>d. Varieties of fine wines</p>
Human Resources	Total population 6.62 million(2014), urban population 3.55 million(2014), rural population 3.07 million(2014).
Knowledge Resources	Ningxia University, University of Ningxia's Wine College, Ningxia Technical College of Wine and Desertification Prevention.
Capital Resources	Annual investment amount 2 billion RMB from 2012 ,total cumulative investment amount 60 billion RMB in 5 years from 2012.
Infrastructure	Wine enterprises 58(2015),wine processing capability 190,000 tons, Winery number 72 and 58 vineries under construction(2015).

Demand conditions

China now is the 5th world largest wine market and the biggest red wine market. In 2014 a total volume of wine of around 2.016 billion liter had been sold with a total value of around 133.82 billion RMB (Chinese currency) (Euromonitor International, 2015). Even the wine market faces the challenge of the slowdown of Chinese economy and governmental anti-corruption action, in long term the Chinese wine market will still grow up and will have a great space of demand.

Related and supporting industries

In 2011 the government of Ningxia issued a plan to develop the “The Helan Mountain Grape Culture Corridor” that by 2020 there will be a total size of 1million acres of vineries, one wine culture development center, 3 wine cities, 10 wine towns and more than 100 wineries (Chateaus) which will make this area a world-class wine and tourism region. In this area tourism industry will be mainly developed based on natural sceneries (deserts, Yellow River etc.), ecological sceneries (theme park of ecological restoration of mining and industrial areas etc.), historical and cultural landscapes (local ethnic history and culture etc.) and wine culture (Wineries, wine

museums, wine festivals etc.). Related industries such as real estate industry, food industry and film industry will also be developed.

Firm strategy, structure and rivalry

The Ningxia's strategy of wine industry development is so called "small winery, big producing area" which means the diversification in the development of local wineries is encouraged to avoid the homogeneity of wine products and the wine quality is strictly regulated and classified in a huge wine producing area. This strategy is also called "chateau wineries strategy" which is to introduce more wine brands and fully make use of their own characters and advantages for target wine markets. There are two reasons for the adoption of such a strategy. The first reason is that Chinese domestic wine giants companies such as Changyu, Greatwall and Dynasty already have well-known reputation among Chinese consumers and strong control of the domestic market. The second reason is that with the cooperation of imported wines, Chinese consumers view large produced wine as low quality wine (Hao et al. 2015). Compared to other domestic wine producing region such as Yantai (Shandong Province) and Changli (Hebei Province), the wine industry history in Ningxia is still short and the wine production volume is small but Ningxia has the time to shape its own taste and flavor and develop its own boutique wineries.

Government

In the way to development the local wine industry, the government of Ningxia has released several regulations. Governmentally, in 2012 the Wine Institute of Ningxia and the Wine Industry Association of Ningxia were founded in order to regulate the wine industry and to promote cooperation between enterprises. In 2013 the International Federation of Vine and Wine of Helan Mountain's East Foothill was established in Yinchuan with the goal to further the domestic and international cooperation. In 2015 Ningxia Grape and Wine Industry Development Alliance which is responsible for intra-industry collaboration and coordination was established jointly sponsored by relevant government agencies and the Chinese Academy of Sciences, China Agricultural University, Northwest A&F University. In the same year, Ningxia's Grape Industry Development Bureau was set up to guide the construction and the development of "The Helan Mountain Grape Culture Corridor".

Table 2 Regional regulations of Ningxia

Regional regulations for the wine industry of Ningxia		
Name	Year	Target
Regulation on the protection of Eastern Foot of Helan Mountain Wine Region	2012	The first protection regulation for wine region in China
"Ningxia Classification System" for wineries	2013	The first and only winery classification system in China
Regulation on the protection of the geographical mark "Eastern Foot of Helan Mountain"	2014	Regulation to protect the geographic mark of wine region

Chance

Even though China is the 5th world largest wine market, the average wine consumption per capita (0.62 liters, 2011) is still small compared with other main wine consuming countries (France 45.61 liters, Italy 37.63 liters, Germany 24.48 liters, 2011) (Li and Isabel, 2016). With the growing economy and improved life standards, there is a big space for the increase of wine consumption per capita. There are three main chances for wine promotion in China. First Chinese customers value the health value of wine and the red color of wine which means lucky in traditional Chinese culture. Second young generation of Chinese is very interested in the western culture including wine culture. Third gift-giving plays an important role in the social and business activities in China.

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