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journal homepage: www.elsevier.com/locate/emrRed obsession: The ascent of fine wine in China[☆]Philippe Masset^a, Jean-Philippe Weiskopf^{a,*}, Benoît Faye^b, Eric Le Fur^b^a Ecole hôtelière de Lausanne, HES-SO // University of Applied Sciences Western Switzerland & Bordeaux Wine Economics, Route de Cojonnet 18, 1000 Lausanne 25, Switzerland^b INSEEC, LAREFI & Bordeaux Wine Economics, 19 Quai de Bacalan, 33070 Bordeaux, France

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ABSTRACT

This article uses hammer prices from five global auction houses to analyse the price premium Bordeaux fine wine yielded at Hong Kong wine auctions. We find that fine wine was on average sold at a 19% premium in Hong Kong. We further observe that the Hong Kong premium is not uniform and most pronounced for wines with perfect Parker scores and the most powerful brands. The premium has declined throughout the sample period from 60% in 2008 to a level of 15% since 2012. This can be attributed to the increase in knowledge on fine wine by Chinese customers.

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1. Introduction

Fine wine from Bordeaux, a product that two decades ago was virtually unknown to all but some of the Chinese¹ population, has become fashionable and much discussed from Hong Kong to

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¹ Throughout the paper the term China and Chinese refers not only to the People's Republic of China but also to the Special Administrative Regions of Hong Kong and Macau.

Beijing.² The discovery of signature molecules in pottery jars in Jiahu dating back 5000 years suggests that alcohol fermentation has a longstanding practice in China (McGovern, 2009). While traditionally most wines consisted of grains such as rice or millet, grape wine has seen a rapid ascent in recent years. The increase in wine consumption has catapulted China into one of the most coveted markets for wine exporting countries. Since 2000, China has seen an increase from 4.9 million USD in bottled wine imports to 1.3 billion USD by 2011 (OIV, 2014). Today, China and Hong Kong are also the most important customers for Bordeaux wines. China is the largest importer of Bordeaux wines representing 20% in volume and 17% in value of all Bordeaux exports. Hong Kong, on the other hand, has positioned itself as the number one place for fine wine from Bordeaux representing 5% in volume and 18% in value of all Bordeaux exports in 2011 (Le Monde, 2012). It has further positioned itself as the fine wine gateway to China with a 82% re-exportation rate of French wines to mainland China (Beaujard, 2014).

Several factors are responsible for the intensified interest in fine wine and the increase in fine wine consumption in China. An increased economic and political openness has led the population to adopt traits from Western lifestyles. At the same time, Chinese government policies have altered consumer behaviour by favouring healthier red wine consumption as opposed to traditional rice wine. Finally, a better education and stronger income has led to the emergence of a newly educated and wealthy class which is fond of fine wine (Sun, 2009). Furthermore, fine wine has not only grown into a popular consumption good but has also turned into a gift of predilection and an alternative investment among wealthy Chinese. According to Forbes magazine, wealth held by the 100 richest Chinese totalled 376 billion USD in 2014 which constitutes an increase of 121% since 2009. Over the same period, the number of millionaires rose by 189% to 2.4 million inhabitants. This strongly growing affluent class has discovered luxury goods and collectibles as a mean to differentiate itself and to convey its new status to the outside world. It thus favours prestigious objects such as iconic Bordeaux wines and has led Chinese and Hong Kongese (Ultra) High Net Worth Individuals to put 17% respectively 14% of their total wealth into collectibles in form of jewellery, art, precious metals and fine wine (Barclays, 2012).

The wine market caters to different customers and their needs and thus ranges from relatively cheap bulk wine for everyday consumption and which can be found in most supermarkets to fine wine that is more expensive and rare to source. In this paper and in line with literature on wine, we concentrate on fine wine which displays specific features. It foremost has to display a secondary market, typically auctions, on which the bottles can be exchanged after their initial release (Masset and Weisskopf, 2013). For a wine to effectively appear repeatedly on the secondary market it should ideally present three criteria: it should have the ability to improve in bottle and thus show an important ageing potential; it should emanate from a well-known wine-growing region and have a long standing history and reputation; it should have been awarded high scores by experts (especially Robert Parker) or be high-standing in an official classification. Overall, this favours the most iconic Bordeaux wines.³ Especially the most iconic wines from the Medoc, Pomerol and St. Emilion have established a strong reputation over the last century, are at the top of their respective official classifications and are continuously well-rated by different experts. The fine wine universe thus becomes relatively narrow. According to Milner (2011) investable fine wines are restricted to the 25 best Bordeaux wines and a minority of wines from other regions. He further indicates that 95% of Liv-ex⁴ turnover is from Bordeaux wines and more than half of it is concentrated on the five first growths of the Medoc. Masset and Weisskopf (2015) confirm that wine funds predominantly invest in the most iconic Bordeaux wines. We, therefore, believe that analysing these prestigious wines from Bordeaux correctly represents the world market for investable fine wine.

In this paper, we first describe the interest of Chinese for fine wine from Bordeaux across the last decade and the concurrent evolution of Hong Kong into the major place for wine auctions. We show that the demand for Bordeaux fine wines has strongly increased over the last decade and that the abolition of excise duties in Hong Kong has favoured the creation of a fine wine hub catering for the growing

² The title of this paper is inspired by the film "Red obsession" by David Roach and Warwick Ross on the position of Bordeaux wines in China.

³ Appendix 1 gives a graphical overview of the Bordeaux region and Appendix 2 an introduction on some of the important characteristics of the Bordeaux fine wine market.

⁴ The London International Vintage Exchange (Liv-ex) is an internet-based trading platform for fine wine that was founded in 1999. It has established itself as the premier source for wine trading and indices.

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