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Research Article

Effects of “Eight-Point Regulation” and “Chinese Military Bans Luxury Banquets” on Price, Sale, and Consumption of High-End Alcohol Products in China

Abstract

Background: Alcohol use disorder was linked to corruption, abuse of power, and bureaucratic inefficiency in mainland China. The Communist Party of China issued the “Eight-Point Regulation” and “Luxury Banquets Ban for Chinese Military” in December 2012 to eliminate extravagance and corruption. This study aimed to probe the effects of “Eight-point regulation” and “Chinese military bans luxury banquets” on price, sale, and consumption of high-end alcohol products in China.

Methods: We collected and analyzed secondary data to derive reflections on the influence of the policies on alcohol sale and consumption, and discussed the remaining challenges in this area. In addition, we made suggestions for additional research and policy development. The data was obtained from official websites, published studies, and research institutes. Qualitative and quantitative data were processed using MAXQDA 11.

Results: The “Eight-Point Regulation” and the “Chinese Military Bans Luxury Banquets” have caused adjustments in sales mode, mode innovation, structural adjustment, and substitutes in the liquor industry. This study investigated the effect of the frugality rules on alcohol price, sales, and consumption: lowest growth on prices, decline in high-end liquor sales, and increase in sales ranking of middle- and low-end liquors.

Conclusion: The identification of this link is meaningful and may establish a model to improve public health in a top-down setting. The effective and continuous implementation of the rules may help reduce alcohol-related diseases as well as prevent chronic related conditions in the population. What's more, it was nearly four years since the two policies has been introduced. Further research should be conducted to investigate the effect of these policies, and further research and long-term monitoring should be conducted.

Introduction

China has an established custom practiced during festivals and celebrations that include drinking alcohol. Toasting is also practiced during business meetings or banquets [1]. Over the past several decades, China has undergone rapid economic development and urbanization. Alcohol production and availability have also increased considerably [1] and the per capita alcohol consumption has increased yearly. For instance, the annual national liquor (65 degrees) per capita consumption increased to 8.57 liters in 2013 [2]. In China, the domestic alcohol industry obtains large profits from

selling liquor. Liquor, especially high-end liquor, affects the public and the government in several aspects. Excessive liquor consumption is associated with chronic diseases, disturbances in mental and physical health and social functioning [3]. The prevalence of alcohol dependence and several alcohol-related diseases has also increased [4]. Furthermore, alcohol-related liver diseases are among the most commonly observed diseases in government employees [5]. In particular, 20.3% to 34.9% of government employees have fatty liver disease [5-7]. On the other hand, the consumption of high-end liquor can promote corruption and reduce work efficiency in the government and the military workforce [3].

China's government promulgated a series of decrees to control the consumption of high-end liquors when their prices increased by the end of 2012. On December 4, 2012, Xi Jinping (General Secretary of the Communist Party of China, the President of the People's Republic of China, and the Chairman of the Central Military Commission), the newly elected leader of China's ruling party, pledged to avoid extravagance and to reduce bureaucratic visits and meetings in order to earn the trust and support of the people. The "Eight-Point Regulation" indicates the requirements on the manner in which government officials should improve their work style in eight aspects [8]. It aimed to change the extravagant lifestyles and bureaucracy among officials. The Central Military Commission strengthened its own lifestyle by building ten provisions. This request is made specifically in the reception section of work; to not arrange luxury dinners (often with high-end liquor), and to not drink.

On December 21, 2012, Xi Jinping, declared that receptions for high-ranking officers should not serve high-end liquors or provide luxury banquets. The Central Military Commission enacted the regulations to improve the work styles of government officials [9]. Receptions should be simple and not have welcome banners, red carpets, floral arrangements, military formations, performances, or souvenirs. Drinking alcohol in official receptions started to be prohibited. Regulations also prohibit commission officials from staying in civilian or military hotels with luxury accommodations during inspection tours. The aim of this study is to analyze the phenomena that emerged as a consequence of these policies.

Material and Methods

We collected and analyzed secondary data to derive reflections on the influence of the policy on alcohol sales and consumption, discuss the remaining challenges in this area, and offer suggestions for additional research and policy development. The data was obtained from official websites, published studies, and research institutes. Qualitative and quantitative data were processed using MAXQDA 11. This study was based on conducted targeted searches for data and included measurements compiled from literature searched from various websites and data from several research institutes. We retrieved all related reports and articles from the World Wide Web (internet) as well as from newspapers and magazines. This study used the initial search terms 'Eight-Point Regulation', or 'Chinese Military Bans Luxury Banquets', and 'Alcohol', or 'Price', or 'Sales' or 'sales volume', or 'government officials' health', or 'the general public'. These materials included high-end alcohol prices, market, sales, and consumption in an official reception. High-end alcohol sales volume, high-end alcohol industry business taxes, and high-end alcohol taxes paid to the State Treasury by the liquor industry were also determined. We also identified relevant essays on the effect of the official regulation on the tobacco industry as a support for our letter. Further, we searched PubMed (<http://www.ncbi.nlm.nih.gov/pubmed/>), World Health Organization (<http://www.who.int/en/>), Centers for Disease Control and Prevention (<http://www.cdc.gov/>), the Chinese literature on China National Knowledge Infrastructure (<http://www.cnki.net/>), WAN FANG DATA

(<http://www.wanfangdata.com.cn/>), and general online search engines (Google, Baidu, and Yahoo).

Data extraction

DS and LLL independently extracted data from each study meeting the inclusion criteria. A standardized form was used to ensure consistency of data extracted from each article. The extracted data described the study objectives, underlying theory-based concepts, setting, sample, intervention characteristics and findings.

Results and Discussion

Before the "Eight-point regulation" and "Chinese military bans luxury banquets"

The liquor industry expected a large market for expensive Chinese liquor and high demand for promotions from 2011 to 2012 because of China's economic growth. In 2012, liquor stock prices increased by more than 50% [10]. Twenty-eight listed companies showed an operating income of 83.969 billion Yuan in the first half of 2012, which was 27.34% higher than that of 2011. Profit for alcohol industry of 222.37 billion Yuan increased in 2012 by 40.99% from that in 2011. In the first half of 2012, the alcohol industry showed an increase, which remained significant in various industries [10].

After the "Eight-point regulation" and "Chinese military bans luxury banquets"

The regulations largely affected China's liquor market and people's lives. Sales generated by high-end alcohol in China initially increased and then decreased in the past two years. The rapid increase and the remarkable decrease in alcohol sales are a rare and unique global phenomenon.

The "Eight-Point Regulation" has largely affected China's political and business sectors, including alcohol, tobacco, luxury gifts, and catering industries. Similarly, other enterprises, especially high-end restaurants and expensive alcohol manufacturers, were affected primarily because they had to overcome a major loss in business. Sales volume, price, and profit from expensive Chinese alcohol, which was previously mandatory in official banquets, decreased. To adapt to the market, a high-end alcohol corporation developed middle- and low-end liquors and lowered its prices to keep or increase its sales volume. By contrast, beers and imported wines were less affected. With the increase in the number of young and middle-aged consumer groups and the popularity of the concept of responsible drinking, beers and wine, in particular homemade wine, have been consumed [11].

Effect on sales volume: A Decline of high-end liquor sales and an increase in sales ranking of middle- and low-end liquors

In the first half of 2012, the Chinese liquor industry expected a large market for high-end liquor and higher demands for high-quality promotions in line with China's economic growth. With the sudden ban, the return on net assets of the liquor industry had sharply decreased from

approximately 40.85% in 2012 to 28.95% in 2013 [12]. At the beginning of 2013, the sales and prices of high-end liquor were 20% to 30% lower than those before the bans were implemented. In 2013, high-end liquor sales and prices declined as the sales volume of some liquor stores decreased by 30%. It was noted that high-end liquor prices decreased by almost 20% in Shanghai [13]. Sichuan-based Wuliangye and Guizhou-based Kweichow Moutai Co. Ltd. are the most popular liquor brands in China, particularly among government and military officials. Before the policy was installed, Moutai and Wuliangye accounted for 54% of the sales revenues among the listed liquor companies [14] and they produce and supply high-end liquor, consequently gaining large profits from the government and the military; other companies manufacture middle- and low-end liquors for civilians [15]. After the policy was installed, sales have significantly declined in 2012 after the Central Government prohibited lavish, baijiu-abundant banquets [16]. Shares of Wuliangye have declined by more than 27% in 2013 [16]. Before 2013, “Three public consumption” (direct and indirect) accounted for approximately 40% of the total consumption of Maotai. In 2013, the proportion of public spending was only approximately 7% of the total consumption of Maotai [16]. Since 2014, the quantity of high-end liquors reserved for special clients and organizations has decreased by more than 40% [16]. In 2014, at the peak of the anti-extravagance campaign, total retail sales of Chinese spirits reached 488.7 billion yuan, a decline of 1.7 percent from 2013 [17]. As a result, Chinese high-end liquor enterprises exploited the middle-end liquor markets.

Due to the anti-corruption campaign, the annual profit in 2014 for the baijiu industry dropped by 12.6 percent from 2013 [18]. China’s biggest baijiu producer, Kweichow Maotai Co., Ltd., earned a total net profit of 3.59 billion Yuan in the first quarter of 2013, and the net profit increased by 21% yearly. However, the growth rate was significantly slower than the company’s annual average of 51.86%. The net profits of the company amounted to 13.3 billion Yuan in 2012 [19]. Revenue of Moutai increased by only 0.6% in the first half of 2013, a value that virtually indicates the absence of any significant increase [20]. The anti-corruption policies has had an effect on Kweichow Moutai, but this is only temporary [21]. The sales performance of “Jiugui liquor” was also pre-reduced by nearly 43.84% [22]. These high-end liquor corporations marketed high-end products of middle-end liquor corporations, such as Shede and Jiugui, after the prices were reduced. In addition, these middle-end liquor corporations were under intense pressure to perform well in sales. Second-tier liquor companies sharply experienced a decrease and even achieved negative revenue because of the “three consumption restrictions”, “prohibition,” and other industry factors; thus, the net profit may not be the case [22].

Effect on prices: Liquor prices demonstrated the lowest growth

The decreasing prices are the result of the country’s economic slowdown and government regulation on the consumption of expensive liquors, which have been banned in government and military receptions [23]. By the end of 2012, the

prices of high-end products, such as Wuliangye 1618, increased by more than 30%, that is, 900 Yuan (\$144) per bottle, whereas the price of low-level regular Wuliangye increased by 10%, that is, 725 Yuan per bottle [24]. In 2014, the price of the high-end liquor averaged 1,300 Yuan a bottle, down 32.6 percent compared to an average of 1,900 Yuan in 2013, according to the Luxury Consumer Price Index 2014 published by the Hurun Report [21]. The price of a standard half-liter bottle of Feitian Moutai, which contains 53% alcohol, decreased from 1,900 Yuan to 1,400 Yuan from the end of 2011 to the end of 2012. By contrast, the estimate of a bottle of Wuliangye, which contains 52% alcohol and the best packaging, decreased from 1,100 Yuan to 850 Yuan in the same period [25]. The prices of high-end liquors have decreased sharply as the 2013 Lunar New Year approached. The cost of the products of Wuliangye Yibin Co., Ltd. and Kweichow Moutai Co., Ltd. decreased by as much as 60% [26]. In 2013, the prices of Maotai decreased to lower than 800 Yuan [27]. The costs of popular liquors, such as Maotai, were decreased by 20% to 30% [28]. The 53 degrees Feitian Maotai’s cost returned to approximately 1000 Yuan per bottle [28]. Thus, in January 2016, Moutai posted a 25 percent rise in sales from the same period of 2015 [17]. However, the prices of high-end liquors have been reduced to attract consumers, and electronic commerce has been developed to enhance the sales volume [30].

Effect on government officials’ health

The prohibitions set for the army and the new Central Government to eliminate corruption have led a few officers to dare to be punished [31]. In 2013, high-grade catering consumption showed negative growth, which indicates the reduction in the public funds for eating and drinking and the effect on the overall spending [32]. The ban on excessive working hours and unhealthy drinking has been implemented strictly. A government official found to have violated these rules may be ousted from office. Hence, officers and military personnel can be efficiently managed. Moreover, the health of government officers and military personnel can be improved, and alcohol consumption can be reduced [33].

Effect on liquor companies

A number of liquor companies have remarkably changed. The chairman of a Guizhou-based manufacturer of alcohol stated, “We cannot simply rely on sales to government departments; our sales from the public sector accounted for a mere 7% in 2013” [34]. Maotai suffered significantly because of the anti-corruption campaign of the Central Government. On the other hand, online shopping is becoming popular in China; liquors are also sold through online networks. Records that listed companies detailing their sales to the majority of the population show that the public primarily consumes Maotai and Wuliangye [35]. Maotai has responded to traditional public consumption patterns of mass consumer and business spending, and one of its transition paths is the e-business. Concurrently, the company explored online shops where it can sell its most prestigious product at a lower price and keep the company’s interest [36]. Thus, alcohol manufacturers may target young consumers and interact with these individuals to determine the product they would prefer [37, 38].

This study also has certain limitations. The effects of “Eight-Point Regulation” and “Chinese Military Bans Luxury Banquets” on low-end liquors remain unknown. With the identified patterns of alcohol consumption, the relationship between alcohol consumption and socio-demographic and health-related characteristics should be investigated. Other issues regarding the corresponding effect should be considered, one of which is the duration of the effect. The outcome of a specific effect and a long-term effect deserves further investigation, particularly on how these policies influence people’s cognition, attitude, and behavior. The temporary health and public health effects remain unknown; thus, close monitoring is necessary. An additional issue is the health effects of liquor consumption. Government policies have been implemented to reduce extravagance and waste among government officials, and such policies have remarkably affected civilians. Hence, the two previously mentioned government policies are feasible and helpful in improving the work styles of leaders. These two government policies not only influence alcohol sales and consumption indirectly but also possibly curb the prevalence of chronic diseases.

Conclusion

The “Eight-Point Regulation” and “Chinese Military Bans Luxury banquets” have caused adjustments in sales mode, mode innovation, structural adjustment, and substitutes in the liquor industry. An alternative to increasing the proportion of change affecting public health is the change from high-end liquors to middle- and low-end liquors and from spirits to wine or beer. Changes in proportion may be determined by consumers’ age. However, whether health or age has considerable relevance remains unknown. Liquor sales through e-commerce may cause changes in consumption and age proportions, establish links with the shopping festival business, and yield poor health outcomes. Drinking and health-related factors should be identified to establish their health link to the “Eight-Point Regulation” and “Chinese Military Bans Luxury Banquets” regulations. The identification of this link is meaningful and may lead to the establishment of a model that can be used to improve public health in a top-down setting. The effective and continuous implementation of the rules may help reduce not only alcohol-related diseases but family, work,

Effects of “Eight-Point Regulation” and mental health issues associated with alcohol consumption. What’s more, it was nearly four years since the two policies has been introduced. Further research should be conducted to investigate the effect of these policies, and further research and long-term monitoring should be conducted.

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Author contributions

All authors contributed to the design of the study. Yong Zhao participated in the development of the study protocol. Sha Deng, Lingli Liu, Dengyuan Liu conducted data collection.

Xianglong Xu was responsible for literature searches, the interpretation of the results, and writing the manuscript. Xianglong Xu, Runzhi Zhu, Sha Deng, Sheng Liu, Dengyuan Liu, Cesar Reis, Manoj Sharma, Yong Zhao contributed to the drafting of the manuscript. Yong Zhao was responsible for the conception of the study and overall supervision of the data collection and analysis, the interpretation of the results, and manuscript preparation. All authors have read and approved of the final manuscript.

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Ethical Approval

The study was conducted in accordance with the Declaration of Helsinki, and the protocol was approved by the Ethics Committee of Chongqing Medical University (2016001).

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