

[Field Research]

# An Exploratory Study on the Characteristics and Distribution of Traditional Liquor among China, Japan and Korea\*

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## Abstract

**Purpose** - The study investigates the history, production methods, market scale, and distribution of the traditional liquors of three countries: South Korean sokokju, Chinese shaoxing-chiew, and Japanese sake. These have similar production methods, being made from rice or cereal, cores of their respective food industries.

**Research design, data, and methodology** - The study investigated the history of the three liquors, liquor classification in the three countries, and production methods. It examined the scale of the traditional liquor market and these countries' distribution structure.

**Results** - Brand cognition of traditional liquors is affected by a focus on wellbeing and LOHAS (lifestyle of health and sustainability). Promotion and marketing strategies along with a high quality image, shelf life of draft liquor, traditional liquor identification systems, and high taxes on traditional liquor, and the need for continuous R&D and training of professionals all impacted the industry.

**Conclusions** - These countries play important roles in world trade, seeking economic integration. By forming a free trade agreement (FTA), their traditional liquors, with a proud history, can be jointly branded in the world market.

**Keywords:** Traditional Liquor, Liquor System, Production Method, Distribution Structure, Market Scale.

**JEL Classifications:** D2, D4, F15, H2, R1.

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## 1. Introduction

### 1.1. Background

The three countries of Korea, China and Japan are important countries in East Asia to have close relations each other and to be community of interest. Having no regional cooperation body, the three countries prepared for cooperation frame by taking opportunity of the 3rd term ASEAN+3(Association of Southeast Asian Nations) in 1999. The three countries have cooperated at many areas each other to build up community of interest. Internationalization of corporate management, opening and reformation of economy of each country and promotion of regional economic community have reinforced production and sales of the enterprises as well as cooperation between distribution activities. Common area for mutual cooperation of those countries have had plenty of ups and downs in history owing to geographical relations to have something in common with culture a lot. And, in history, the three countries have developed industry and culture by mutual mediation. The three countries can find out win-win by mutual cooperation by using their traditional liquors that have been produced according to complexity and exchange of both culture and industry.

The liquor was born in human history. In the era of hunting and picking before farming and ranching, men are thought to produce fruit wine. Men produced fruit wine in the era of hunting and picking, and did milk wine in the era of nomad. In the primitive age, men are thought to produce wine by natural fermentation throughout the world considering fossil in Old Stone Age. A saying says, "The God has produced water, while men has done wine". As such, before birth of letters, wine existed to be evidenced by discovery of wine-making jar at the relics in the era of 'Eun' in China(Cho, 2003).

### 1.2. Purpose of the Study

The Korean people who had long history and unique culture had their own traditional liquor. The liquor of the Koreans greatly differed from that of the Western countries because of geo-

graphical distance and cultural difference to be relatively similar to that of China and Japan. Both type of liquors differed each other because of malt. In other words, fruit wine as well as grain wine such as beer and whisky of the Western countries produces wine not by yeast but by malt. The yeast is produced by kneading of dough with either wheat or rice and water to ferment and to produce mold. The Korean traditional liquor is made by using yeast. The Japanese liquor is made by rice yeast, while the liquor of China and/or Korea is done by wheat yeast. The Chinese people made use of glutinous rice to produce liquor, and the Japanese did rice, and the Koreans did rice, sticky rice and mixed grains. The Korean traditional liquor is said to have more than 300 kinds of production methods(Oh, 2004).

These days, the traditional Korean liquor has increased consumption in the market considering to help to the health and beauty care as well as low alcohol content to export to Japan rapidly. The Koreans have consumed traditional liquor made by local farming products more than before considering environmental problems and fear of processed food at Fukushima nuclear power plant accident in Japan. And, import of Sake has increased to open Sake bar around colleges. Plenty of inexpensive Chinese made food has occupied dining tables in South Korea and Japan to give governments and farmers so many agonies: But, these days, processed food of agricultural product of Korea has been much popular in China at heavy metal contamination of some of Chinese food and fake dry milk.

Traditional liquor that is processed food of rice and/or cereal being important in food industry of each country has various kinds. This study investigated history, production method, market scale and distribution of the traditional liquor by Sogokju in Korea, Shaoxing Rice Wine in China and Sake in Japan that have similar production method, and found out mutual exchange.

## 2. History of Traditional Liquor in Korea, China and Japan

The liquor has origin in the Chinese character that old character of 'Ju(酒)' means 'Yu(酉)' indicating 'chicken, the West and/or ripening'. 'Yu(酉)' was originated from hieroglyphic letter of jar with pointed bottom that could collect wine sediment to ferment. Later, the character had another meaning with 'Samsbyeon' to put 'Samsbyeon' at righthand side of old character. They open 'Sujibu(水之部)' at Chinese character dictionary to find out characters with 'Samsbyeon', and 'Ju(酒)' character has been included in 'Yujibu(酉之部)'. 'Yu(酉)' is read in 'supporting Yu' and 'ripening Yu' to indicate shape of wine jar'. Letters with 'Y' that seems to have no relation with wine today had relation with wine in the beginning. All of Chinese characters with 'Yu(酉)' indicating wine are used to indicate name of wide scope of the food of fermentation, for instance, Chui(醉), Jak(酌), Rye(醴), Sun(醇), Jak(醋), and Jang(醬)(KALIA,

2004).

### 2.1. History of the Korean Traditional Liquor

In Korea, the Korean ancients produced and gave clean grain wine to the ancestors praying rich harvest and good luck of each year from the era of Mahan, before the era of the Three Kingdoms, and they loved dance, singing a song and drinking. The legend of foundation of the Goguryeo Kingdom of Jumong included a story of the wine. 'Goguryejeon' of 'Wiji' has a phrase of 'Seonjangyang(善藏釀)'. In other words, in the Goguryeo Kingdom, they produced plenty of fermented food products including wine. Men of taste in Tang Dynasty in China acknowledged Silla wine that was produced by yeast. Wine production method by yeast was transferred to Japan to help develop wine greatly in Japan.

In the era of the Three Kingdom, ancestors produced two kinds of wine, that is to say, the one was wine produced by Juguk(酒麴) and malt, while the other was sweet rice drink(gamju) produced by malt only. 'Goryeju' and 'Sillaju' that are representative wines have been widely known at home and abroad. Those wines were praised by writers at the Song Dynasty in China.

In the era of the Koryo Dynasty, Hwanggeumju, Baekjaju and Songju that indicated material and characteristics of wine made appearance. Name of those wines were inherited at the end of the Joseon Dynasty as it were. And, in the Koryo Dynasty, distilled wine was introduced to help produce current wine culture of Korea very much.

In the Koryo Dynasty, the brewage method of the Song Dynasty as well as the Yuan Dynasty in China was introduced to develop conventional brewage method and to diversify kinds of yeast as well as wine.

In the Joseon Dynasty, wines that are said to be renowned so far were settled down. At that time, high quality liquor was produced to make change of material from non-glutinous rice to glutinous rice and fermentation technology from single brewage to dual brewage. The latter half of the Joseon Dynasty was glory days of local liquor. The liquors with unique taste and flavor made appearance. And, imported liquor also existed(KALIA, 2004).

### 2.2. History of the Chinese Traditional Liquor

In China, the liquor made appearance at the time of Longshan Culture 5,000 years ago. In ancient times, the liquor was used to worship gods: In accordance with development of the society, the liquor made change to be a favorite food of living lives of men. The Chinese traditional liquor had long time history to have various opinions on the birth since old days. "Dugang" was thought to be the one who brewed liquor for the first time, and to be progenitor of brewing. The Chinese liquor has been developed in five stages as long as thousand years: The first stage, 4,000 to 2,000 BC, in other words, from early

era of Yangshao Culture in New Stone Age to end of the Ha Dynasty, was in initial step of the Chinese liquor to be the period of enlightenment of the Chinese traditional liquor. They brewed liquor by using fermented grain.

The second stage that was from Ha Dynasty 2,000 BC to Qin Dynasty 200 BC as long as 1,800 years was period of growth of the Chinese traditional liquor. In the state, they could not develop liquor much to let leaders only in the society drink.

The third stage that was from 200 BC to Northern Song Dynasty as long as 1,200 years ripened the Chinese liquor (Jang & Jang, 2007). They developed Hwangju, Gwaju, Yakju and grape wine and so on. At the time of Han Tang, China did international trade business with Europe, Asia and Africa actively to exchange culture with the Western countries and to create base of invention and development of Chinese Baijiu.

The fourth stage that was from 1,000 AC to 1,840 AC in the Qing Dynasty as long as 840 years developed the Chinese liquor very much. They developed Baijiu, famous liquor in the world, owing to brewing machine brought from countries bordering on Western China. They developed five kinds of liquors, that is to say, Baijiu, Hwangju, Gwaju, Yakju and grape wine, and Baijiu became drink that common people usually like to drink (Su, 2013).

The fifth stage that was from 1840 to present time reformed the Chinese traditional liquor. Liquor production business was remarkably developed owing to combination between advanced liquor production technology of the western countries and traditional liquor production technology of China (Hae, 2002).

### 2.3. History of the Japanese Traditional Liquor

Samgukji's Donggijeon said that the Japanese people liked to drink, and that many Japanese people lived long lives owing to good dietary life. In the times of Bio & Nara, the Japanese people brewed liquor by using yeast, rice processed by steaming unripe grains and water in jar and/or pot, and water amount occupied 60 to 70% of aggregation of both yeast and rice processed by steaming unripe grains to be large. At termination of fermentation, they sieved raw material by using Chinese yarn and/or cotton cloth to put white colored and milky liquor as it was and to separate clean liquid at upper side from thick one at lower side. The clean liquid was called clean liquid to let high level persons drink it, and to let next level persons drink milky liquid, and to let low level persons take sake cake by putting warm water that was quoted at Manyeobjib, the longest song book in Japan.

In the times of Heian, 10 kinds of brewing methods in the palace were regulated. The brewing method and/or liquor varied depending upon personal status. At that time, they squeezed liquor through bag that was not strained including baekju and heukju. The liquor was used instead of sweet rice drink having 3 days fermentation time and/or water for mixing of liquor. They developed some of basic technique of production of Sake in the era of Kamakura and Muromachi, in particular, the era of

Kamakura. At that time, monks at the Buddhist temples started to brew liquor. A Buddhist monk who went to China to study learned various kinds of liquors to brew them at Buddhist temple.

In the era of Edo, they brewed Sake by using polished rice processed by steaming unripe grains without yeast rice. They were allowed to brew Sake at winter season only that had the best taste among four seasons. The liquor that was a little milky made change to be clean liquor owing to better brewing method to call Sake.

In the era of Meiji, foreigners investigated Sake scientifically by using microscope to brew Sake without decay and to produce good quality Sake by advanced production technology (Shinyai, 2006).

## 3. Classifications of Liquors and Brewing Method of Traditional Liquor

### 3.1. Classifications of Liquors

#### 3.1.1. Classifications of Liquors in Korea

Article 3 of the Act on the Liquor Tax says that the liquor means 'not only spirit but also drink with 1% or more of alcohol'. Article 4 of the Act has classified the liquor into: 1) Spirit, 2) The fermented liquor includes Takju, Yakju, Sake, beer and fruit wine. 3) The distilled liquor includes distilled Soju, diluted Soju, whisky, brandy, common type of distilled liquor and liqueur. 4) Other kinds of liquor.

Article 9 of the enforcement ordinance of the Act on Liquor Tax (wholesale business of specific liquor) says that folk liquor and farmer's liquor are: 1) The farmer's liquor means liquor that farmers and/or person engaged in forestry industry and producer group have brewed by using their farming products; 2) The folk liquor means that president of the Cultural Heritage Administration, Seoul city government mayor, big city government majors and provincial government governor (cultural properties nominated at Seoul city and big cities) have recommended in accordance with the Act on Protection of Cultural Properties to admit of needs of technology transfer and/or preservation of traditional culture; 3) The folk liquor that the Minister of Agriculture, Fishery and Forestry recommends in favor of master of traditional food in accordance with the Act on Development of Processing Industry of Agricultural Products shall be controlled together with Takju, Yakju and Sake according to policy of 'specific liquor' (Liquor Tax of Korea, 2011).

#### 3.1.2. Classifications of the Liquor in China

In China, the food includes liquor. Each department manages stage from production to consumption of the food in accordance with the Act on Food Safety as of June 1, 2009. The State Council of China keeps the Committee of Food Safety in ac-

cordance with the Act on Food Safety to classify liquor into bai jiu, Hwangju, beer, grape wine and fruit wine, etc.(Food Safety of China, 2009).

In other words, 1) The fermented wine includes Hwangju, 2) The fruit wine includes grape wine and fruit wine, 3) The sparkling liquor includes beer, 4) The distilled liquor includes bai jiu, 5) The blended liquor includes bai jiu, Hwangju, and mixture of grape wine. In China, the liquor industry has been classified into beverage industry and spirit industry. The beverage industry can be classified into Bai jiu, Hwangju, beer, grape wine and fruit wine (miscellaneous wine). Bai jiu industry, Hwangju industry and fruit wine industry of the beverage industry belong to category of the Chinese traditional liquor industry.

3.1.3. Classifications of the Liquor in Japan

In Japan, the liquor has been classified depending upon kinds and items to simplify kinds and to allow various kinds of liquor products and reflect consumers' changing preference(Korea Rural Economic Institute, 2007).

The Act on Liquor Tax has classified the liquor: 1) The sparkling wine includes beer, sparkling wine and miscellaneous sparkling wine. 2) The fermented wine includes Sake, fruit wine and miscellaneous fermented wine. 3) The distilled wine includes continuous distilled soju, single distilled soju, whisky, brandy, alcohol for raw material and spirits. 4) The compounded liquor includes synthetic Sake, Mirim, sweet wine, liqueur, powder liquor and miscellaneous liquor(Liquor Tax of Japan, 2009).

<Table 1> Classifications of the Liquor in Korea, China and Japan

Section	Korea	China	Japan
Legal base	Korea [The Act on Liquor Tax]	China [The Act on Food Safety]	Japan [The Act on Liquor Tax]
Description	Fermented liquor : Takju, Yakju, Sake, beer, fruit wine	Fermented liquor series : Hwangju series	Sparkling liquor : beer, sparkling liquor series, other kinds of sparkling liquor series
	Distilled liquor : distilled soju, diluted soju, whisky, brandy, common type of distilled liquor, liqueur	Fruit wine series : grape wine, fruit wine, etc	Fermented liquor : Sake, fruit wine, other kinds of fermented liquor
	Other kinds of liquors	Sparkling liquor series : beer	Distilled liquor series : continuous distilled soju, single distilled soju, whisky, brandy, alcohol for the use of raw material, spirits
		Distilled liquor	Compounded

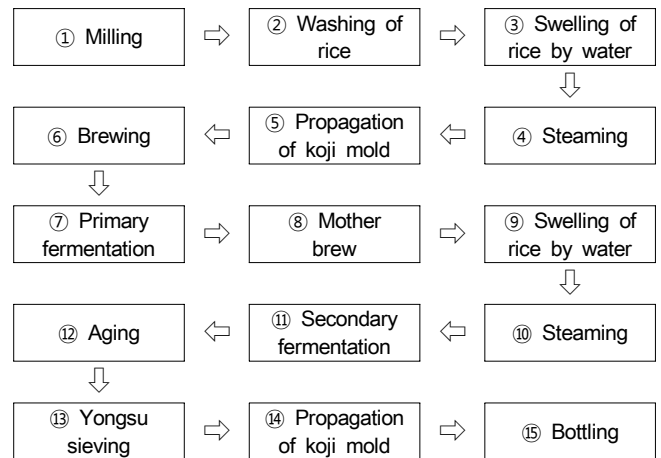
		series : Bai jiu	liquor series : compound Sake, Mirim, sweet fruit wine, liqueur, powder wine, miscellaneous wine
		Blended wine series : Compounded liquor of Bai jiu, Hwangju and grape wine.	

3.2. Production Method of Traditional Liquor

3.2.1. Production Method of Korean Sogokju

Article 3 of Enforcement Decree of the Act on Liquor Tax says that Sake makes use of less than 1% of yeast based on aggregation of the weight of the rice to produce it. At mixture of spirit to ferment and/or filter, amount of the spirit shall be 2.4 liters or less of the spirit per 1 kg of the rice based on the spirit with 30 degree alcohol.

Sogokju that was made with less yeast was called either Sogokju or Sogokju (Park, 2005). Sogokju, high quality liquor, is difficult to make owing to small amount of yeast and produces less yeast smell(Seocheon, 2006). And, Sogokju with 16~18 degree has soft taste and good scent to have beautiful color like bamboo blade and to promote appetite as well as blood circulation. Sogokju is known to be effective at fatigue recovery(Cho, 1991).



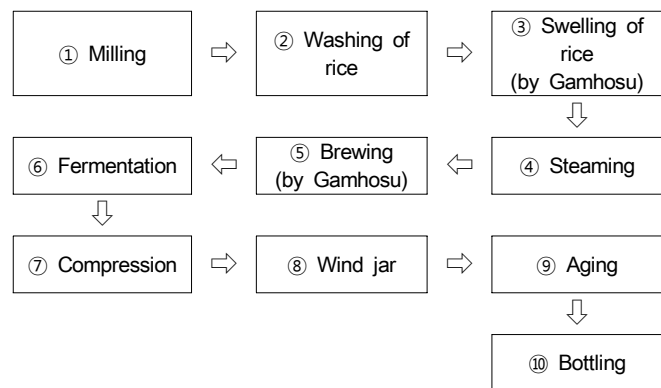
<Figure 1> Production Process of Korean Sogokju

Brewing is mostly done at fermentation under specific temperature and time by using yeast, rice cooked hard and water to produce Danyangju, Iyangju and Samyangju depending upon number of repetition of the course: Sogokju that belongs to Samyangju is made by using non-glutinous rice and glutinous rice. Samyangju is made by mixing Mitsul with gruel and/or

Beombeok & Baekseolgi (Heunmuri) to brew by putting yeast. Either flour or powdered malt that is subsidiary material is used, and Deotsul is used together with Mitsul and gruel that is Beombeok, Baekseolgi and/or Godubab is used. Mitsul of Beombeok makes use of Beombeok, Baekseolgi and Godubab, while that of Baekseolgi does Deotsul of Baekseolgi and Godubab. Most of secondary Deotsul is fermented by mixing Godubab with Deotsul: Not only Deotsul but also secondary Deotsul is mixed to ferment, and not only Deotsul but also secondary Deotsul can be added by water, and Deotsul only is generally added by water and secondary Deotsul is done by Godubab only(Park, 2005).

### 3.2.2. Production Method of the Chinese Shaoxing rice wine

Hwangju, fermented liquor, is said to be one of liquors having the longest history in the world together with beer of Germany and grape wine of France. Shaoxing rice wine that is made at Shaoxing Zhejiangsheong China in accordance with the government's standards represents Hwangju to be widely known at home and abroad. Shaoxing rice wine is said to be good quality Hwangju that ferments good quality glutinous rice, wheat and Gamhosu at Shaxing by unique technology (method), and to add yeast, mold and other saccharification and fermentation agent. Hwangju that generally has light yellow to be clean and transparent has no sediment with deep scent. Hwangju has alcohol degree of 12~17%. Hwangju that is made by fermentation of yeast is similar to Sake of Korea. Hwangju has many kinds and brand liquor owing to long history(Chinese Traditional Culture, 1998)

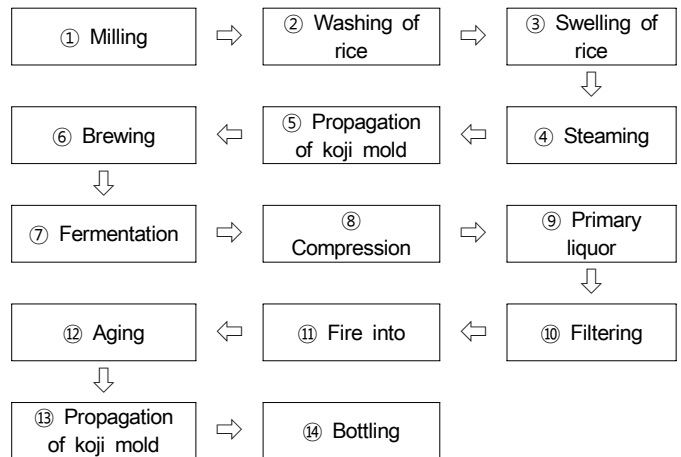


<Figure 2> Production Process of Chinese Shaoxing rice wine

Shaoxing rice wine that is made of glutinous rice and wheat has quality depending upon Gamhosu to differ from Hwangju. Shaoxing rice wine has four kinds of liquor depending upon fermentation and sugar content, that is to say, Shaoxing Wonhongju, Shaoxing Gabanju or Shaxing Hwajoju, Shaoxing Seonyangju and Shaoxing Hyangseolju, etc to have intuitive rating standards such as color, scent, taste and class classifying into good quality liquor, 1st class liquor and accepted liquor as well as biochemical rating standards(Lee et al., 2009).

### 3.2.3. Production Method of the Japanese Sake

Article 3-3 of the Act on Liquor Tax says that Sake means liquor with less than 22% of alcohol content, in other words, 1) Ferment by using rice, yeast and water; 2) Ferment by using rice, koji, water, Sake residue and miscellaneous materials according to laws and regulations and then filter (The aggregation of materials based on laws and regulations shall not exceed 50% of weight of both rice and yeast); 3) Add Sake residue to Sake and then filter. Sake has material for the use and makes use of rice all the times and has bottling process.



<Figure 3> Production Process of the Japanese Sake

Sake with characteristics of raw material and/or production method is called 'liquor with specific name' to control it separately. The liquor with specific name can be classified into three: 1) Kinjoshu is made by using milled rice having 60% or less rice polishing, mold rice, water and/or brewing alcohol to have unique scent and good color and gloss; 2) Junmaishu has no alcohol content for brewing. It is made by using milled rice, mold rice and water to have good scent, color and gloss. 3) Honjojoshu is made by using milled rice having 70% or less rice polishing, mold rice, ethyl alcohol and water to have good scent, color and gloss and to drink warm liquor(Kim & Kim, 2009).

## 4. Traditional Liquor Market and Distribution Structure

### 4.1. Traditional Liquor Market

#### 4.1.1. Traditional Liquor Market in South Korea

Gayangju is difficult to cognize scale and production to have 13 kinds including Songjuk Dugyeonju in Gangwon-do, 9 kinds including Songyeobju in Seoul and Gyeonggi-do, 18 kinds including Nosanchun in Chungcheong-do, Andong Songhwaju in Gyeongsang-do, 26 kinds including Jeonju Moju in Jeolla-do,

and 6 kinds including Omegisul in Jeju-do(Seocheo Cultural Center, 2006). In particular, 300 to 400 households of 1,480 households in 2006 at Sogokju brewed liquor in the name of Sogokju to distribute it.

In 2007, the traditional liquor business had delivered traditional liquor of 967kℓ, that is to say, Yakju of 467kℓ (45.6%) to be the largest followed by Takju 268kℓ(27.7%), distilled soju 164 kℓ(17.0%) and liquor 60kℓ (6.2%) in order. In 2007, total delivery amount of farm based liquor accounted for 10,344kℓ to be 43.7% up than the year of 2006. The farm liquor was delivered to occupy fruit wine of 9,290kℓ(89.8%) to be the largest followed by miscellaneous wine 274kℓ(2.6%) and Takju 246kℓ (2.4%) in order (Statistics Chronology of National Tax, 2007).

In 2008, working traditional liquor businesses (205 businesses) of the businesses with license recorded 129.8 billion KRW (94.5%) of domestic sales of total sales of 137.5 billion KRW to occupy no more than 7.6 billion KRW (5.5%) of the export (Korea Agro-Fisheries & Food Trade Corporation, 2009). Sales of fruit wine recorded 83.4 billion KRW to account for 60.7% of total sales to exceed half of total sales of the traditional liquor, followed by Takju of 24 billion KRW (17.4%), distilled liquor of 16.3 billion KRW (11.9%), Yakju of 7.8 billion KRW (6.4%) and miscellaneous liquor of 5.9 billion KRW in order.

Sogokju (1.8L) had annual production, for instance, self-consumption (1 to 50 bottles production) (26.9%), small-scaled production (51 to 200 bottles) (45.5%), mid-scaled production (201 to 350 bottles) (14.2%) and large-scaled production (351 bottles or more) (13.4%): Two of Sogokju factories as well as 300 to 400 households produced Sogokju of 1,800kℓ a year to record annual sales amounting to about 15 billion KRW(Choi, 2013).

#### 4.1.2. Traditional Liquor Market in China

In 2007, China exported Shaoxing rice wine of about 20,000 ton. China exported the wine to Hong Kong, Japan and Taiwan being main export market and more than 20 countries in South East Asia, Europe and North America. Increase of export of Shaoxing rice wine has close relation with "protection system of the products identifying country of origin". The system helps improve production control level of the enterprises, elevate reputation of the products and promote export.

In 2007, China produced 756,960kℓ of Hwangju to be 7.9% up than previous year. Three provinces of Shanghai, Zhejiang and Jiangsu occupied 87.3% of total production. In 2007, number of Hwangju producer accounted for about 500 to occupy about 5.5% of total liquor producers. Fifteen Hwangju producers had annual production capacity of more than 10,000 ton and four producers had the capacity of more than 40,000 ton: Those producers that occupied no more than 1% of total number of Hwangju producers had 18.6% of the output.

86 Hwangju producers had been registered at the Committee of Hwangju of Shaoxing, Zhejiang, and four producers brewed more than 10,000 ton of Hwangju, 7 to 8 producers did 50,000 to 100,000 tons, and about 10 producers did 1,000 to 5,000

tons, and remaining producers were small businesses. In 2008, they produced 450,000 tons (20.5%) of Hwangju at Shaoxing among 2,450,000 tons of total production of Hwangju. Production quantity at Shaoxing increased every year, for instance, 300,000 tons in 2006, 400,000 tons in 2007 and 450,000 tons in 2008.

In 2006, Hwangju consumption per person on average in China was 0.58ℓ, while that in Shanghai, Zhejiang and Jiangsu that were chief producing region and consumption places was 8.9ℓ, 8.7ℓ and 6.6ℓ to be much higher than the average. From 2003 to 2007, consumption of low priced Hwangju decreased. In particular, consumption of Hwangju at 10 Yuan (about 1,800 KRW) or less remarkably decreased, while that of high quality Hwangju increased(Lee et al., 2009).

#### 4.1.3. Traditional Liquor Market in Japan

In Japan, more than 2,000 Sake producers work. Top ranking 10 producers have occupied about 50% of total production so that production scale of the producers vary very much. Top ranking 1st to 50th producers have occupied 73% of total production, and top ranking 1st to 80th producers have done 77%, and remaining about 1,900 producers have done 23%. These days, number of 20th ranking or higher producers as well as that of 31st or below producers has increased to worsen polarization.

As common type of liquor market decreased, so Sake market did: For instance, in 2008, shipment of Sake accounted for 656,270kℓ to be as many as 41% down than 1,112,000kℓ in 1998. In 2008, sales amount of Sake accounted for 424.4 billion KRW to be 43% down than 742.7 billion KRW in 1998. As such, Sake market scale dwindled because of gradual decrease of demand upon Sake since latter half of 1980s that the Japanese people's preference of alcohol consumption was diversified to increase demand upon other kinds of alcohol products. These days, distilled Soju (pot Soju) has been popular for the purpose of market sales and business to convert plenty of demand upon Sake into Soju and so on(Lee et al., 2009).

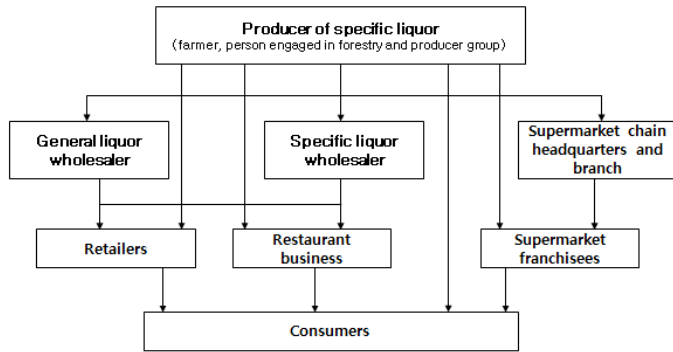
### 4.2. Distribution Structure

#### 4.2.1. Distribution Structure in South Korea

The Act on Liquor Tax, the Enforcement Decree of the Act on Liquor Tax as well as Regulation on Transaction of Business of the Liquor Tax of the National Tax Service have regulated liquor sales business license. Article 8 of the Act on Liquor Tax says that the one who wants to sell liquor (including sales agent and/or food service business) shall have facility standards of presidential decree and other requirements of each sales place depending upon kinds of liquor sales business to get license from superintendent of competent tax office. Wholesale business license covers comprehensive liquor wholesale business, specific liquor wholesale business, alcohol spirit wholesale business, export and import of liquor, and liquor intermediary,

and retail business license does liquor retail business and watered sales business.

The alcoholic liquor can be classified into common liquor, specific liquor (traditional liquor, farm liquor) and imported liquor, etc from point of view of distribution. Common type of liquor and specific liquor can be distributed by liquor producer, retailers, large scale discount stores, supermarket franchisees and wholesalers for restaurants.



<Figure 4> Distribution Process of Specific Liquor in South Korea

The specific liquor wholesalers that manages like general liquor wholesalers can sell liquor to supermarket chain franchisees of retailers, and supermarket chain headquarters and branches (broker) buy home use liquor from producers and/or importers to sell it to membership franchisees and company owned outlet(Liquor Tax of Korea, 2009).

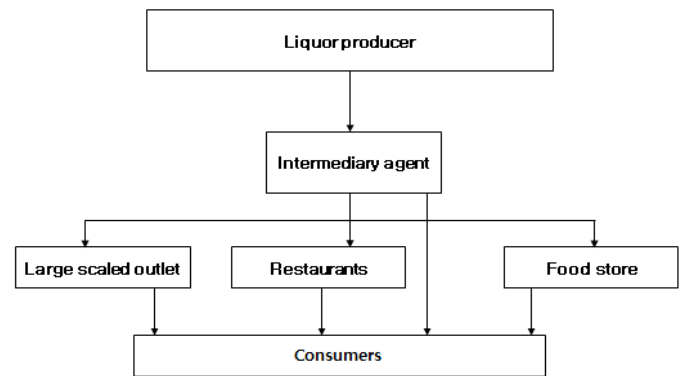
4.2.2. Distribution Structure in China

Not only the Ministry of Commerce but also the State Administration for Industry and Commerce manages liquor distribution. The Ministry of Commerce manages and supervises liquor distribution in China, and registers unit and/or individuals (liquor manager) of wholesale and/or retail business of the liquor at department at not only department of commerce administration and control at register registration area but also equivalent department of the Ministry of Commerce(EDCC, 2006).

The liquor producer has relations with liquor wholesale, retail and consumers to have distribution structure. China has horizontal and short distribution channel that has very much short distance between liquor producers, retailer and consumers to take immediate actions against the market. And, intermediary agent plays more important role. The producer regards intermediary agent as a member of enterprise, in other words, element of the enterprise that has high position. Not only producer but also intermediary agent has not relation of supply and sales but higher relation than joint venture.

Liquor sellers were asked to register them at administrative agency of each district not later than 60 days after issue date of business license, and liquor suppliers had to attach statement with company name, telephone number, name of purchaser, date of selling and quantity at the time of selling of liquor product to detect all of distribution processes of the liquor. Liquor

sellers were prohibited to sell liquor unpackaged at other places than authorized outlet in order to prevent 'unpackaged liquor' of small businesses from being sold out in streets(hljxinwen, 2012).

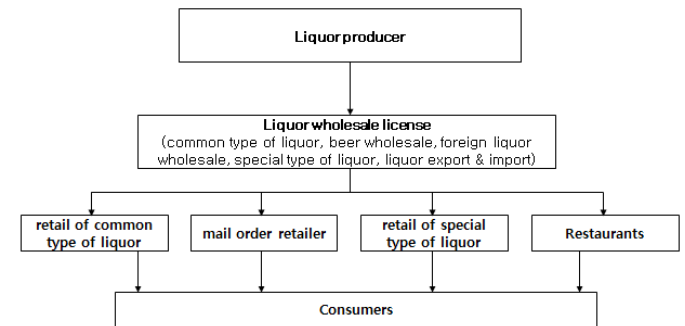


<Figure 5> Liquor Distribution Process in China

4.2.3. Distribution Structure in Japan

Distribution structure in Japan did not make change greatly. In accordance with revision of liquor retailer license on April 1, 2006, classification into liquor retailer license, general liquor retailer license, large-scaled liquor retailer and Mirim retailer license and other special liquor was simplified to be general liquor retailer license, mail order retailer license and special liquor retailer license. Liquor sellers between producer and consumers follow license system.

The one who wants to obtain license of sales, sales agent and/or intermediary agent of the liquor in accordance with regulations on license of sales of the liquor shall submit an application to superintendent of tax office with following information; 1) address and name of an applicant, 2) place and name of shop (place for continuous sales), 3) kinds, scope and selling method of the liquor to sell (items of the liquor of kinds), 4) purpose and sales period of the one who wants to sell liquor at exhibition gallery hall, outlet store and equivalent temporary shop.



<Figure 6> Liquor distribution process in Japan

Liquor sales license includes wholesale business license and retail business license. The liquor wholesale business license has been classified into common type of liquor (all kinds of liquor), beer, foreign liquor (wine, whisky, brandy and liqueur), and

liquor retail license has been done into retail (all kinds of liquor) and mail order liquor retail (local liquor and imported liquor)(Hwang & Lee, 2010).

## 5. Summary and Suggestions

At official announcement of Korea, China and Japan FTA negotiation in November 2012, the three countries started to discuss economic integration to be likely to increase economic integration. The three countries FTA can create GDP of 10.8 trillion dollars (in 2009) to be third largest market in the world following EU (16.4 trillion dollars) and NAFTA (14.2 dollars). The three countries have economic scale of about one fifth of world total turnover and GDP. The three countries FTA is much likely to expand scope of economic cooperation up to the three countries as well as ASEAN. First of all, the Chinese domestic market that has grown up the fastest in the world can be expanded(Korea-Japan Cooperation Foundation for Industry and Technology, 2013). However, South Korea may suffer from losses at the weakest area of agriculture by FTA with China, and may expand export at FTA with Japan to have affirmative effect: When South Korea has competitiveness at processed food of farming products at the moment, processed food industry of Korea has produced affirmative market conditions at Fukushima nuclear power plant accident of Japan and fake milk formula of China.

Markets of Japanese Sake, Chinese Shaoxing rice wine and Korean Gayangju have dwindled gradually to decrease production quantity. The three countries traditional liquor markets have grown up owing to not only wellbeing and LOHAS fever for healthy lives but also young people's preference of low alcohol content liquor, and the Korean Government have paid attention and supported continuously to traditional liquor and have given energy to local traditional liquor producers to let consumers make change of cognition. In Japan and other foreign countries, Korean liquor consumption has increased owing to Korean wave(Choi & Lee, 2013).

However, Korean traditional liquor may be weaker than Chinese Hongju and Japanese Sake that have brand awareness in the world are. Public relations is needed to elevate brand awareness. Whisky, brandy and other foreign liquor of the Western countries often connect consumers' purchase depending upon brand awareness rather than taste. In the Japanese market, the Japanese people have cognized Makgeolli more that has small-scaled consumption: And, most of the Chinese people do not cognize Korean traditional liquor yet to require continuous and large-scaled public relations.

Traditional liquor reflects cultural features of each country. The three countries' traditional liquors have characteristics and unique taste to let consumers give good reaction and do not buy them because of high prices. So, sales promotion and marketing strategy are needed to sell the traditional liquor at department stores and/or high quality outlet in accordance with high

class and high quality images.

And, the traditional liquors have limitation on distribution. The traditional liquors that are raw type differ from sterilized liquor with rather long shelf lives. So, research on extension of shelf lives of raw type of liquor that is of help health is needed. The three countries extend shelf lives of some of traditional liquors to export them that have inferior taste and scent because of sterilization.

French wine has adopted strict AOC on grape wine, and the Japanese Sake controls quality and identification by 'Standards of Production Methods and Quality Identification of Sake', and the Chinese Shaoxing rice wine does by 'the Act on Use Control of Identification of Products of Country of Origin of Shaoxing Rice Wine': Even if identification system of the traditional liquor helps consumers buy, identification of the Korean traditional liquor is not satisfactory.

To protect people's health, the three countries have adopted tax system that can lessen liquor consumption and encourage drinking of liquor with low alcohol content. Not only China but also Japan has followed differential tax system to recommend low alcohol content liquor that liquor with high alcohol content has high tax rate and the one with low alcohol content has low tax rate: And, South Korea follows not specific tax but valorem tax to be disadvantageous to traditional liquor at high liquor price. In Japan and China, research and quality control on traditional liquor are considerably high. So, South Korea is demanded to research and develop traditional liquor and to train professionals continuously.

The three countries that play important role at world trade look for their FTA to integrate economy. By taking the opportunity, the three countries with long history need to open exhibition of their traditional liquors to develop their liquor brands in the world.

Further studies are needed to investigate comparison and regulations of import and export of liquor of the three countries and to do in-depth analysis upon consumers concerning taste and values of traditional liquor preferred and exchange information and get profit from long term point of view.

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