



The Political Economy of Beer in Taiwan

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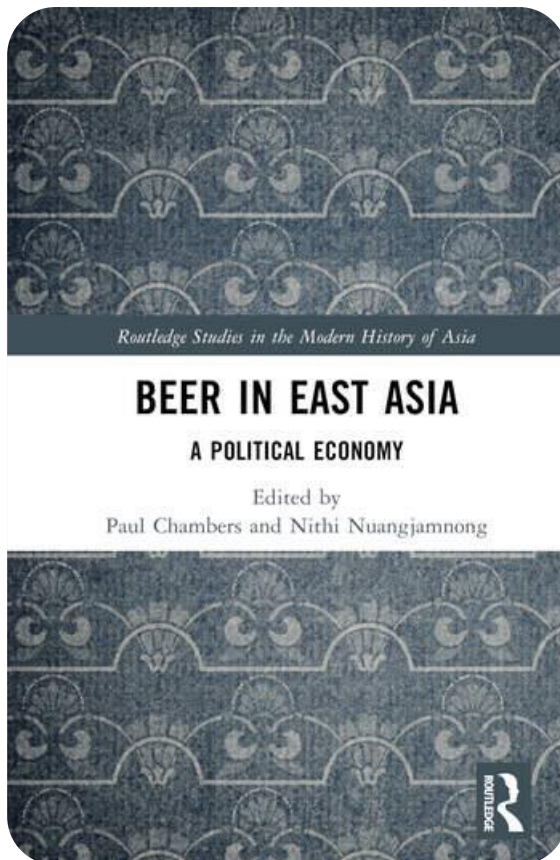
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Transcript

Introduction

The following content is an overview of my contribution to a recently published book on the political economy of beer in Asia. The book – *Beer in Asia: A political Economy* – was edited by my colleague Paul Chambers of Naresuan University (Thailand) and was published by Routledge early this year.

I shall like to divide my overview into three parts. The first looks at the global development of beer consumption. In the second part, I would like to focus on the evolutionary stages of Taiwan's beer industry. More specifically, I would like to talk about the role of the Japanese colonial government in establishing a local beer industry as well as look into the socio-political role of beer in postwar Taiwan. Finally, the concluding part of my brief overview summarizes the key findings of my study.



Schafferer, Christian. 2023. "The political economy of beer in Taiwan: From Japanese pride to national brouhaha, beer wars and craft beer." In *Beer in East Asia: A Political Economy*, edited by Paul Chambers and Nithi Nuangjamnong. New York: Routledge, pp. 80-105.



Part One

Global Development

Let us turn to the first part of the presentation – the global development. There are two observable global trends in the global beer industry. First, global beer consumption has steadily increased in recent years. While European demand is declining mostly because of health concerns and public health policies, Asia’s beer consumption, on the other hand, has significantly increased since the beginning of the millennium.

Second, globalization has played a key role in shifting transnational consumption patterns of alcoholic beverages and in bringing about a global convergence in terms of consumption and taste. As for Asia, the share of spirits has fallen from 90 percent in the 1960s to 70 percent in recent years, whereas the demand for beer and grape wine has increased over the same time span (Table 1). China experienced the largest shift in consumption patterns. Although spirits still dominate the market, China has overtaken the US as the world’s largest beer market and producer. Apart from that, Taiwan and Thailand are among the states in the region with substantial increases in the share of beer in the overall beverage mix.

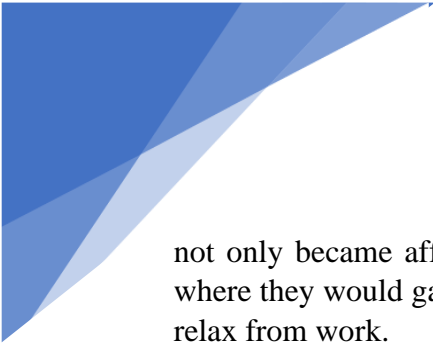
Although Taiwan’s current trends in beer production and consumption seem to differ little from global developments, the evolution of the beer industry has an interesting narrative in terms of the island-republic’s socio-political and economic development as I will show in this presentation.

Part Two

Evolutionary Stages

Japanese colonialism (1895-1945)

Japanese colonial rule marked the beginning of Taiwan’s beer industry. The consumption of alcoholic beverages during Japanese colonialism changed in several ways over time. Apart from the private consumption at home, drinking parlors (*jiujia* or *jiulou*) became popular public places. Most of the parlors were small and decorated in Ching style, but around 1916 several new parlors were built in the inner-city areas or in the vicinity of ports. They would usually occupy several floors of western-style buildings with dozens of function rooms, barber shops and bathhouses. (Here we can see an example of such a building.) In the early years of colonialism, parlors were mostly frequented by Japanese officials and the local intelligentsia. The new and more spacious parlors however increased competition and many owners decided to cater to larger audiences. In the late 1920s, parlors



not only became affordable to the common people, but also evolved into public places where they would gather to discuss political or social issues, form business ties, or simply relax from work.

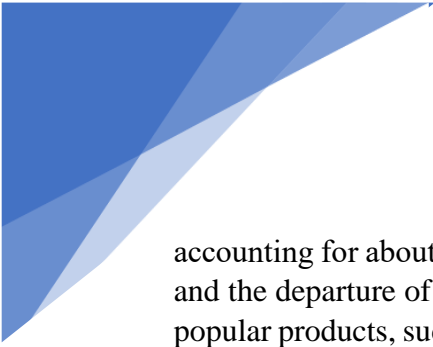
Through higher production capacities and the introduction of new products the colonial government succeeded in meeting the increasing demand for alcoholic beverages. Apart from the traditional Japanese drinks, such as sake, beer was introduced to the local consumer market. When the Japanese arrived in Taiwan in 1895, beer had already been popular in Japan while it was something unknown to the local Taiwanese population. The Japanese demand was first met by importing beer from Hong Kong and Japan.

It was not until 1919 that the local production appeared profitable and local Japanese entrepreneurs decided to build a brewery. The brewery covered an area of 14,000 *ping* (4.6 ha) and construction was completed within a year. Most of the equipment was second hand and came from an old Hawaiian brewery. In June 1920, the first batch of beer entered the domestic market. The initial quality of the produced beer was however inferior to the imported Japanese products. Although competitiveness in terms of quality and productivity improved over the years, the brewery was far from being profitable and losses were covered through the state's monopoly on the production and sale of alcoholic beverages. Regardless of the financial difficulties, beer in general enjoyed growing popularity. As such, beer advertisements and promotional events became part of everyday life.

From a broader perspective, the evolution of the Taiwanese beer industry can be seen as a side effect of Japan's national development policy. More specifically, at the beginning of the Meiji restoration, leading government officials, believed that the wealth of a nation was determined by its products. More importantly, they were convinced that beer was the “beverage of the new era.” While industrial development itself was considered crucial in Japan's policy of “northern defense” against advances by Russia, the production of beer became a key element in the imperial government's vision of industrial development. The prestige and popularity of beer increased during and after the Great War as domestic brands were served aboard Japanese Navy ships and breweries engaged in patriotic beer advertising. Beer emerged as a symbol of modernization and as such explains the origin and growth of the Taiwanese beer industry.

Kuomintang authoritarian rule (1945-1987)

At the end of the Second World War, the KMT government took over the assets of the Japanese monopoly bureau including the privately owned brewery. During authoritarian rule (1945-1987), over half of the government's revenue came from the state's monopoly on tobacco and alcohol. When the KMT lost the civil war in China and retreated to Taiwan in the late 1940s, more than eight hundred thousand Chinese Nationalists fled to Taiwan,



accounting for about ten percent of the island's population. The influx of Chinese migrants and the departure of Japanese citizens led to changes in consumer preferences. Previously popular products, such as sake, were no longer in demand and production ceased soon after the arrival of the KMT. There was however growing demand for alcoholic beverages popular with the new arrivals, such as Chinese yellow wine (*huangjiu*), and sorghum liquor (*gaoliang*).

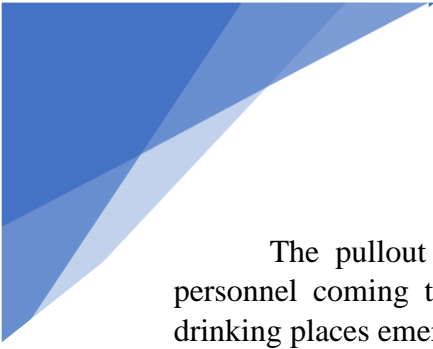
Between 1950 and the mid-1960s, Taiwan received economic aid from the US government, which helped the KMT regime to implement important industrial and agricultural policies, such as the land reform and import-substitution industrialization. Rapid economic growth after the hardship of the immediate postwar years contributed to significant changes in consumer behavior. Inexpensive alcoholic beverages, such as *fermented red glutinous rice (Honglujiu)*, were considered inferior and production ceased in the mid-1960s. Beer, on the other hand, regained popularity and supply capacities soon reached pre-war levels.

Korean War (1950-1953)

However, the real beer boom came with the Korean War. The Korean War highlighted Taiwan's strategic importance in the US attempt to contain communism in Asia. Consequently, cooperation between Washington and Taipei intensified. The US funded several important military and civil aid programs between the years 1950 and 1965. As such, the number of advisors and military personnel stationed in Taiwan increased considerably, especially after the signing of the Mutual Defense Treaty in 1954.

Rest and Recuperation Program (1965-1972)

The number of US personnel further increased with Taiwan becoming part of the *Rest and Recuperation Program (R&R)* in November 1965. Under the program, military personnel could choose Taiwan among other destinations in Asia for a short vacation. The program lasted until April 1972. In total, almost a quarter of a million Americans came to Taiwan for vacation. Consequently, a whole new industry emerged to serve US personnel. American style bars mushroomed in the vicinity of military installations around the island. Most of the bars were converted semi-detached houses. By law, English signs had to be placed at the entrance. Bars would often have large glass windows covered up with red and green curtains. Some had large wooden doors with glass and others Western saloon doors. Typically, they would have dim lights, one bar counter, a few tables, and chairs. The front of the bar would serve as the lobby, and there would either be several rooms at the back, or the main bar area would be partitioned by screens or high-back bar stools. Bars required a special license to operate. Thousands of women were employed at the bars to entertain the guests. During the 1950s, most of them were Chinese immigrants who had come to Taiwan because of the Chinese Civil War. In the 1960s and 1970s, local women, aborigines and later immigrants from the Philippines, Thailand and Indonesia worked at the bars.



The pullout of American troops from Vietnam led to a decrease of military personnel coming to Taiwan. Soon, the industry vanished, and new forms of public drinking places emerged.

The American “Old West” beerhouse of the 1980s

In terms of economic and socio-political implications, the most important new type of drinking establishment was the beerhouse - locally called *pjiuwu*. The first such establishment appeared in the summer of 1983 in Tienmu, a trendy northern suburban area of Taipei. The following year, a dozen of beerhouses started to do business in the same area. Soon, the new type of drinking place could be seen not only at other popular places in Taipei but also in other cities. The architectural style of the beerhouse appeared to be an advancement of the simple wooden structures that demarcated and embellished the business areas of food and beverage stalls seen at night markets. The log cabin-saloon style was not only economical but also established a highly visible profile. More importantly, it appealed to the Taiwanese fascination for Western culture. The common attraction to elements of American lifestyles and values can be explained by Taiwan's dependence on and close links with the United States. Fast-food chains, such as McDonalds, Wendy's, and Kentucky Fried Chicken, popular television series and movies shaped the mostly idealized and distorted perception of life in America. The beerhouse should create an ambience similar to the Hollywood's wild West – a male-dominated society seeking pleasure at the saloon. The beerhouse became the establishment where people would hang out with friends after work or for a late-night drink. Apart from beer, local dishes, such as fried clams, fried crab legs and snails, were served.

However, not everyone was happy about the beerhouse boom. Soon, the beerhouse turned into a national brouhaha. The public outcry had to do with the unfortunate situation that most of the beer houses operated in residential areas. By the mid-1980s, newspapers consistently reported about the complaints by residents living in the vicinity of the beerhouses. Moreover, health authorities were concerned with sanitary facilities, the generally deplorable state of the kitchens and the tendency of operators to add unfiltered water to the beer to increase profits. The stalemate between the government and operators of beerhouses continued much to the frustration of residents until the late 1980s. In the end, it was not the government that brought about the demise of the beerhouse boom, but market constraints and changing consumer behavior.

The beerhouse was something new and exciting in the early 1980s as it offered people of all walks of life an inexpensive place to relax and spend time with friends in an unconstrained environment. Previous postwar nighttime drinking places had been more secretive and restrictive in terms of gender and class. The beerhouses reflected the growing public demand for freedom and self-expression.



Democratic era

The liberalization of the beer market coincided with the island's republic's political liberalization. In 1987, martial law was lifted, and entrepreneurs were allowed to import beer directly from European and American producers. A few years later, restrictions on Japanese and Southeast Asian beer imports were lifted. Taiwan's entry to the World Trade Organization (WTO) in 2002 and the subsequent end of the state's monopoly system marked the final step in the deregulation of the domestic beer market. As shown in Table 2, the liberalization of the beer market increased overall supply from 3.5 million hectoliters in 1986 to about 5 million hectoliters at the end of the century. The most significant change in the beer market came with the Japanese breweries entering the market and the legalized use of TV advertising in the mid-1990s. For the first time, the share of imported beer reached double digits while the beer market itself began to stagnate. Competition between the state-owned domestic brewer Taiwan Beer and dozens of foreign imported brands intensified.

In this stagnating and highly competitive market, state-owned Taiwan Beer suffered most. By 1996, the company had lost a quarter of its market share in the domestic beer market (Table 2). Taiwan Beer had to reposition itself in the market to boost sales and increase its competitiveness. Analysts at Taiwan Beer noticed that the brand was most popular with the older generation of beer consumers, whereas younger consumers preferred imported brands. The latter market was however economically more important because of its potentials to grow, whereas the former was stagnating. Foreign brands were thus specifically targeting young adults. Heineken, for example, produced advertisements featuring young celebrities or young people enjoying Heineken at social gatherings. Apart from enjoyment, beer consumers in Taiwan consider "freshness" an important sign of quality. Considering these trends, Taiwan Beer decided to reposition its brand in the domestic market. Taiwan Beer should become the preferred brand of young consumers. The company started its repositioning by introducing green bottles and launching a series of advertising campaigns emphasizing the "freshness" and youthfulness of the Taiwan Beer brand. More specifically, the original brew continued to be sold in brown bottles, whereas a modified version of the original lager was launched in 2003 and sold in green bottles and cans labelled *Gold Metal*. Its latest lager called *18 Days* specifically highlights its "freshness". As suggested by the product name the lager has an expiration date of eighteen days.

Moreover, popular singer Wubai and aboriginal pop diva A-Mei were hired to bring the brand closer to the younger consumers and to highlight the indigenous Taiwanese character of the brand. The beer wars with China over Beijing's request to rename Taiwan Beer into TTL Beer as to get access to Chinese markets and the subsequent call by union leaders to boycott Chinese beer highlight the emerging symbiotic relationship between Taiwan Beer and national identity.



Private industrial brewers

With the end of the state monopoly on the production of beer in 2002, private enterprises could engage in brewing their own beer. Several large industrial breweries have emerged over the years affecting the growth and composition of the domestic beer market. Taiwan Tsing Beer set up the first postwar private industrial brewery in 2005. With the new brewery, Chinese Tsingtao Beer could be produced domestically alongside the brewery's locally branded draft beer Longchuan.

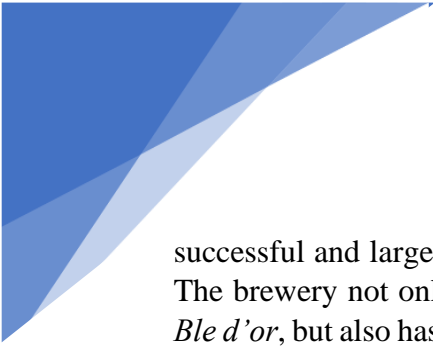
In 2018, a further industrial brewer entered the market. The King Car Group, famous for Mr. Brown Coffee and Kavalan Whisky, started to operate its first brewery in Taiwan with an annual output of one hundred thousand hectoliters. Under the Buckskin brand name, authentic German Helles and Hefeweizen are produced in the brewery with hops, malt and yeast imported from Germany. In the same year, King Car launched the Buckskin Restaurant Group with its flagship Beerhouse serving Western dishes. The brewery also runs a Japanese style Yakiniku restaurant and a beer taproom in Taipei.

Although the market share of Taiwan Beer dropped from 85 percent in 2009 to 60 percent in 2019, the state brewer remains the largest producer of beer in Taiwan. Other important players in the beer market include Heineken, Kirin, Tsing Beer (Longchuan) and Budweiser (Figure 2). The Taiwanese market is of great importance to Heineken since the market is Heineken's second-largest export market in the world. The market deregulations of the 1990s brought some diversity to the beer market. Nevertheless, it was the end of the state's monopoly on brewing that revolutionized the brewing industry. Most of the current trends in Taiwan's beer market, such as flavored and low-alcohol beer, have their origin in the craft beer industry.

The craft beer industry

Soon after the abolition of the monopoly system in 2002, several small beer breweries entered the market. Most of the new enterprises were set up by beer enthusiasts who would spend most of their time creating their own brew but would be short of a detailed business plan and ideas of how to distribute their products. That is, craft beer brewers were confronted with the fact that conventional distribution channels were not interested in their brew because of low profit margins and the small production scale. Within a few years of operation, most of the craft beer breweries closed their businesses because of stagnating sales figures and lack of future perspectives.

However, some entrepreneurs were successful at establishing themselves in the competitive beer market. The lack of proper distribution channels for craft beer made the concept of operating restaurants popular with breweries. Jolly Brewery located in Taipei, for example, was one of the first craft breweries that started business in 2002. It did not focus on selling their products to retailers or restaurants. Instead, its business concept was to brew beer exclusively for its own Thai-style restaurants. Over the years, dozens of small breweries throughout the island opened restaurants serving their own beer. The most

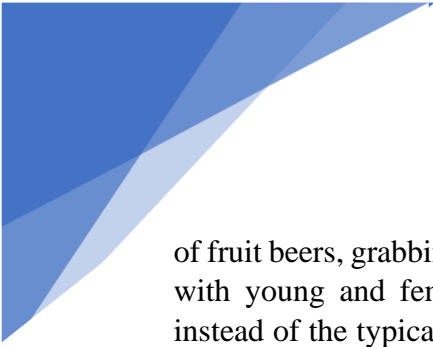


successful and largest private craft brewery operating restaurants is the Sunmai Brewery. The brewery not only produces different brews for its own fourteen chain restaurants *Le Ble d'or*, but also has distribution agreements with major retailers. In 2008, Gordon Biersch, the first foreign craft beer brewer, entered the Taiwanese market. Over the years, the company has extended its network of brewery restaurants throughout the island.

From a comparative perspective, it should be pointed out that the craft beer movement has its origin in the US as a protest movement against oligopolistic trends in the beer market as well as a movement against the production of increasingly standardized beers. However, the Taiwanese craft beer movement is not so much a movement to vitalize the beer industry as it is a movement embedded in the island's republic's search for an indigenous identity – an identity beyond Chinese irredentism. More specifically, the rise of the craft beer industry has coincided with the growing political demand for democratization and the right of self-determination. Since its start in 2002, there has been a discourse about the question of what makes a Taiwanese craft beer Taiwanese. The use of local ingredients has become a determining issue. Sunmai, one of the pioneers in the industry, became popular with its honey lager and seasonal pinkish strawberry ale. Although malted barley and hops are imported from Australia and Germany, the brewer uses Taiwanese strawberries, passion fruit and Longan honey to give its products a local touch. The company's brewing philosophy is to produce beer that reflects the island's (agri)cultural diversity – a philosophy widely shared by supporters of the Taiwanese craft beer movement.

Apart from Sunmai, North Taiwan Brewing, Taiwan Head Brewers, DB Brewery, and Taihu Brewery are among the most popular brewers trying to create a distinctive Taiwanese style of beer. Taiwan Head Brewers, for example, use local peanuts, tarots, and coriander leaves, whereas North Taiwan Brewing got famous with its lychee lager and its “independence” (*duli*) beer (Figure 5). The latter specifically reinforces the political concept of the craft beer movement by featuring a highly popular Taiwanese metal band. The band (Chthonic or *shanling*) has been active in using their music to build awareness of the tragic events in the island's history. Members of the band are acclaimed artists and political activists advocating Taiwan's international status as an independent nation-state and self-determination for Tibet and the Uighurs. The political wing of the band is represented by vocalist Freddy Lim, who served as chair of the Taiwan chapter of Amnesty International (2010-2014) and has been a member of parliament (Legislative Yuan) since 2016.

The craft beer industry introduced local fruit flavors as a distinctly Taiwanese identity. In search of niche markets and to defend its market dominance, Taiwan Beer followed in the craft beer movement's footsteps. In 2011, the state brewer launched its fruit beers in bottles and cans. Locally grown mangos and pineapples were among the fruits used in the brewing process. Within six weeks, Taiwan Beer sold over five million bottles



of fruit beers, grabbing six percent of the domestic beer market. Fruit beers became popular with young and female consumers. Moreover, the low-alcohol content of 2.8 percent instead of the typical 4 to 5 percent makes fruit beers more attractive to health-concerned drinkers.

Although the use of local ingredients has become an important feature of the Taiwanese craft beer industry, there is disagreement among brewers as to what extent local ingredients ought to be used in beer as to be regarded Taiwanese. Some brewers consider adding local fruit flavors as enough, others urge the industry to keep all production at home. For example, Taipei-based brewer Alechemist started business several years ago with a clear focus on domestic agriculture. The company tries to restore barley as a domestic crop. During Japanese colonialism, six breeds of barley were grown in Taiwan. Domestic production gradually decreased in postwar Taiwan and in the 1990s vanished due to plummeting global prices. Moreover, Taiwan Beer replaced malted barley with Ponlai rice in the 1960s because of its abundance, further reducing demand for locally grown barley.

Part Three

Conclusion

Japanese national pride and development

In conclusion, we may say that the origin and growth of the Taiwanese beer industry are best explained by Japan's policy of rapid industrialization as to defend itself against advances by Russia and the belief that the wealth of a nation is determined by its products. More specifically, beer became part of the Japanese government's vision of industrial progress and emerged as a symbol of modernization.

Important economic dimension

During KMT authoritarianism, economic factors significantly influenced the government's decision to revitalize the beer industry after years of stagnation. Over half of the government's revenue came from the state's monopoly on tobacco and alcohol.

Search of indigenous identity

Global political changes in the 1980s, rapid economic growth and a rising middle class brought about political liberalization. The beer house of the 1980s emerged not only as an indicator of cultural change but also highlighted the growing public demand for freedom and self-expression. In more recent history, the rise of Taiwan's local craft beer movement reinforces the island's republic's search for an indigenous identity – an identity beyond Chinese irredentism.

I hope you have enjoyed the brief overview of my book chapter on the political economy of beer in Taiwan.

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