

China's Coffee Frontier: A Tale of Two Regions and a Global Market

Adeline Wei

Abstract:

This essay explores the evolution of China's coffee industry, focusing on two key regions—Yunnan and Hainan. Despite coffee's late introduction to China compared to tea, Yunnan has become a dominant player, producing 98% of the nation's coffee, largely Arabica. The region's mountainous terrain and favorable climate have propelled its coffee industry, which has seen substantial foreign investment and efforts to enhance coffee quality. In contrast, Hainan's tropical conditions make it ideal for Robusta production, though its cultural coffee practices, influenced by Southeast Asian migrants, set it apart. The essay also examines how the growing demand for coffee, spurred by urbanization and lifestyle changes, has shifted Chinese consumption patterns. Companies like Luckin Coffee and Starbucks have capitalized on this trend, contributing to both the domestic and global coffee markets. Despite rapid growth, China still represents a small share of global coffee production, but its coffee culture and industry are poised for further expansion. The synergy between rising specialty coffee demand and advancements in delivery services suggests continued growth for China's coffee market on the world stage.

Keywords: China's coffee industry, Yunnan and Hainan, lifestyle changes, Coffee Plantation, Global Market

Introduction

Legend has it that an Ethiopian goat herder named Kaldi first discovered the coffee bean upon observing his goats' restlessness after consuming the coffee fruit. Although the true identity of the inaugural coffee drinkers remains untraceable, the beverage gained prominence over decades of commerce and exchange within the Eurasian continent. Coffee eventually became a popular drink with the advent of distinctive brewing techniques in various countries like Italy, France, and Germany. In the 19th century, French missionaries first introduced coffee beans to Yunnan Province in China; however, it was not until the late 20th century that coffee began to gain momentum and secure a portion of the Chinese beverage market. One contributing factor was the pre-existing dominance of tea within China. Prior to the introduction of coffee, tea and the accompanying tea ceremony --- the process of tea preparation --- had already played a significant role in shaping Chinese culture, intertwining with Buddhism, Confucianism, and other societal values. Not only was tea already a part of the daily routines of many Chinese, but it was also a symbol of national pride and reverence. In comparison, the subsequently introduced coffee, with similar effects of stimulating wakefulness, represented a foreign lifestyle and Western influence, which held less appeal for the Chinese population.

Dating back to 1952, the first large-scale coffee production in China began in Yunnan Province's Baoshan City,

Xinzhai Village. A major challenge of this initial production was the altitude of the coffee plantations, which significantly influenced the quality of the beans. Despite not being on the coffee belt, the village has continued to prosper with coffee production to this day. (Development of GI-protected Baoshan Arabica Coffee in Xinzhai Village, Baoshan City, Yunnan Province of China, n.d.) Yunnan has since developed into China's coffee hub, producing the majority of the country's coffee beans (98% of total Chinese coffee bean production), specializing in high-quality Arabica beans due to its fertile, mountainous landscape, volcanic soil, and the alternating cold evenings and subtropical afternoons. (Exploring the Coffees of the Yunnan Region With Indo-China, n.d.) The remaining less than 2% of coffee production comes from Yunnan's neighboring province, Hainan. On this tropical island, the elevation of the fertile volcanic land remains around 1000 meters, which is unsuitable for the cultivation of robusta beans, which require an elevation of 2000 to 6500 meters; therefore, Hainan province primarily produces robusta beans. Not long after the Xinzhai Village production was established, in 1956 in Hainan's Xinglong Village, Sun River Coffee, the Xinglong Overseas Chinese Farm, was established as the first coffee plantation in Hainan. It was during the mid-20th century that the story of Chinese coffee began to unfold.

Case Study: Yunnan Coffee Plantation, the largest in China

In 1892, French missionaries introduced coffee to Yunnan

Province, inadvertently revealing its suitability for large-scale cultivation. It wasn't until 1955, however, that coffee planting in Yunnan truly gained momentum. The initial cultivation area spanned 4,000 hectares, with the primary goal of supplying the Soviet Union and Eastern Europe—a strategic Cold War move. Fast forward to 1997, when Nestlé invested 20 million Yuan in Yunnan to establish an experimental farm aimed at empowering local coffee growers through training, loans, and superior coffee varieties. By 2012, Nestlé was purchasing 8,000 tons of coffee annually from Yunnan, accounting for 20% of the region's total production and supporting the livelihoods of about 20,000 people (Chong, 2015).

Despite its current economic significance, coffee in Yunnan once faced opposition. During the Cultural Revolution, coffee was viewed as a bourgeois, capitalist drink that conflicted with communist ideals. The government promoted tea as the national beverage to inspire nationalism and unity, and officially discouraged coffee production and consumption. It wasn't until 1988, recognizing coffee's profitability as a cash crop, that the Chinese government partnered with the World Bank and United Nations Development Program to reignite coffee cultivation in Yunnan. Since then, Yunnan has become China's premier coffee-producing region.

By 2022, Yunnan cultivated about 1.27 million hectares of coffee, yielding 143 metric tons, positioning it as the top coffee supplier in China (Statista, 2024b). The region now supplies 98% of China's coffee, a figure that continues to rise as production scales up and demand for high-quality beans grows.

In the coffee industry, beans are classified into four grades: specialty, premium, commodity, and low grade. Specialty coffee, which earns 80 points or more on the Specialty Coffee Association's cupping test, is at the top. Attributes such as fragrance, aroma, mouthfeel, and aftertaste are evaluated in this process. Currently, most coffee produced in Yunnan is commodity-grade, but the rise in domestic consumption and exports is pushing farmers to improve quality. By 2024, Yunnan aims to boost its production of premium coffee to 30% of the total crop, with 80% of beans undergoing advanced processing (Yunnan Expands Coffee Production, Processing, n.d.). With a favorable climate and geology, Yunnan's coffee industry is set to continue thriving and expanding.

Case Study: Hainan Coffee Plantation, migration and coffee

In Hainan, coffee is often referred to as “Kopi,” a term rooted in Southeast Asian culture, particularly in Malaysia, Vietnam, and Singapore. This connection stems from migration patterns that brought both coffee and cultural influences to Hainan.

Since the 19th century, as industrial revolutions and global economic expansion took hold, Chinese emigrants from Guangdong, Fujian, and Hainan sought opportunities abroad, settling in countries such as Singapore, Malaysia, the United States, and the United Kingdom. These emigrants, known as Huaqiao, retained strong ties to their Chinese heritage. Following the Chinese Civil War, both the Communist Party and the Kuomintang courted the Huaqiao for their economic and political influence. During the Cold War, in Southeast Asia, including Malaysia, anti-imperialist sentiment surged, particularly among groups like the Malaysian Communist Party, which resisted British colonial rule. This led to the return of many Huaqiao to China, bringing with them Southeast Asian customs, including the coffee culture known as Kopi.

Today, Hainan is home to numerous “Lao Ba Cha” restaurants, where older patrons often spend their days enjoying tea, coffee, and traditional snacks. These establishments initially focused on tea, but as Huaqiao returned to Hainan, coffee became a popular menu item. Hainanese coffee preparation diverges from more conventional methods. Instead of filtering with hot water, coffee is brewed using a fine cloth strainer, with ground beans boiled for several minutes. The beans are roasted with butter, cream, and sugar, creating a bold but bitter flavor—often masked with condensed milk and sweeteners, a practice originating from the poor-quality beans used in the early days of the local industry. While Hainan doesn't produce as much coffee as Yunnan, it has become a region where coffee is widely embraced and celebrated.

Hainan's coffee history dates back to 1953 with the establishment of the Xinglong Overseas Chinese Farm, or the Sun River Coffee, the province's first mass coffee cultivation site. In 1960, Chairman Zhou Enlai visited Hainan, praised its coffee, and brought attention to local production areas like Xinglong, Wanning, and Fushan. In 1957, Hainan established the National Spice and Beverage Research Institute, which explored coffee plant varieties and contributed to local innovation. Since 2022, the Hainan Provincial Department of Agriculture and Rural Affairs has added three coffee production lines, aiming to boost local output.

Despite its growth, the traditional Hainanese roasting process is now considered a potential health hazard, causing many—especially older consumers—to shift away from heavily processed coffee. Nevertheless, coffee culture remains strong, with Xinglong boasting over 200 cafés and per capita annual coffee consumption nearing 300 cups. (孙迟, n.d.) Hainan's coffee industry is flourishing, with Wanning's coffee chain alone expected to surpass 1 billion yuan in output by 2024. (F, n.d.) Furthermore, Hainan has just recently become a free trade port, which enables more

trade. Although Hainan primarily produces Robusta coffee and accounts for a small share of China's total output, its rich history and unique coffee culture give the province the potential to become a key player in global coffee production.

Shifts in the Chinese Coffee Production

Over the past decade, China's coffee production has surged. In 2023, the country produced approximately 130,000 60-kilogram bags of coffee, representing about 0.06% of the world's total output—a 5% increase from 2022, highlighting a steady upward trend (CoffeeBI Editorial Team, 2024). In the coffee crop year 2023/24, China exported around 975,000 60-kilogram bags, a significant increase from the 685,000 bags exported in the previous year (Statista, 2024c). This upward trend is expected to continue, supported by Chinese government initiatives such as subsidies and investments. For example, the Chinese government is currently negotiating with the Coffee Industry Corporation (CIC) to expand markets for trade and exports, while also introducing the Liberica variety for Robusta development.

As production rises, foreign companies are increasingly motivated to invest in China's coffee industry. Starbucks, for instance, launched the Coffee Innovation Park Project (CIP) to support local farmers. Since its initial announcement in March 2020, Starbucks has made two more rounds of investments, making the CIP the company's largest investment outside the United States, with a total of RMB1.5 billion (~US\$220 million) (Starbucks China Coffee Innovation Park: Now Roasting, 2018). This initiative focuses on enhancing local coffee processing facilities, providing training for farmers, and promoting the production of higher-quality specialty coffee. As the quantity of coffee produced in China rises, consumer demand for higher-grade coffee is also increasing. However, the specialty coffee industry in China is still in its infancy. In 2016, 50% of the total coffee harvest was wasted due to poor practices. Additionally, most of the coffee produced in China is Catimor, a hybrid between Arabica and Robusta. By 2011, 90% of the coffee plants in Yunnan were Catimor, with the province's coffee area expanding to 43,000 hectares. Yields in experimental fields averaged 3–5.25 tons per hectare annually, with peak years reaching up to 7.5 tons (Vitor, 2013). Efforts to diversify coffee varieties and processing methods are underway, with support from major corporations like Starbucks accelerating these experiments.

In addition to foreign investment, local Chinese coffee companies are increasingly supporting the industry. Over the past decade, businesses like Luckin Coffee have captured significant market share. In 2023, Luckin's sales reached \$3.45 billion, surpassing Starbucks' \$3.16

billion (Times, n.d.). Luckin Coffee also contributes to local coffee production by investing in facilities such as a green coffee processing center in Yunnan with an annual capacity of over 45,000 tons, aimed at improving quality control. Partnerships between companies like Luckin and Yunnan Province continue to stimulate growth in the local coffee industry.

Coffee Market in China

Over the past few decades, the speed of urbanization in China has dramatically increased. In 1980, only 19.4% of the population lived in cities, but by 2023, the urbanization rate had reached 66.16%, and it's projected to grow to 75–80% by 2035 (Briefing, 2024). Alongside this rapid urbanization, coffee consumption has also surged. In 2020, China's coffee market was valued at 136.4 billion CNY, and by 2024, it had compounded to 313.3 billion CNY (Statista, 2024d).

Urbanization typically leads to a more stressful and fast-paced lifestyle, as workers in cities often face fierce competition for employment and limited resources. Coffee, which improves wakefulness, attention, and work efficiency, has become increasingly popular as a solution to these pressures. For example, nearly half of the nurses in public hospitals in China report sleeping less than seven hours, with over a quarter dissatisfied with their sleep duration. For many in the workforce, coffee has become essential to combating sleep deprivation and maintaining productivity. Historically, instant coffee dominated over 50% of the Chinese market due to its affordability and convenience. However, the rise of the pickup industry, driven by platforms like Meituan, has made store-made coffee equally accessible, sparking the growth of local coffee chains such as Luckin Coffee and Manner Coffee.

As of July 18, 2024, Luckin Coffee had opened 20,000 stores, selling over 1.9 billion cups in 2023 ("Luckin Coffee, Inc. Q4 and FY2023 Earnings Conference Call Transcript," 2024). Known for its innovative product offerings and low prices, Luckin Coffee typically sells beverages for around \$2 and frequently provides aggressive deals, such as coupons that lower prices further. Since entering the market in 2017, Luckin's rapid expansion has secured it a dominant market share.

Manner Coffee, another emerging player in the Chinese coffee market, was also founded in 2017. With a market value of \$4.5 billion, Manner's strategy revolves around offering affordable, high-quality coffee in minimalist, small-sized shops, which reduces operational costs and accelerates expansion. This model is made feasible by the growing reliance on delivery services.

Meituan, China's largest food delivery platform with a 69% market share, plays a critical role in the coffee industry's growth. By December 2022, around 520 million

people in China were using online food delivery services. Meituan collaborates with coffee brands like Luckin Coffee, McCafe, NOWWA, and Yongpu Coffee to provide free deliveries, distributing at least 500,000 cups of coffee annually (顾馨, n.d.). The convenience of delivery services has reduced the need for customers to visit physical cafes, enabling coffee shops to operate with smaller retail spaces while still reaching a broad customer base. This shift has been crucial to the rise and success of coffee chains across China.

Conclusion and Future Projections

In recent years, China's coffee market has become increasingly saturated, yet the demand for higher-quality coffee continues to grow. Yunnan and Hainan, two prominent coffee-producing regions in China, have attracted significant investment aimed at improving the quality of their output. Both regions show great potential to become global leaders in coffee production due to their favorable conditions and continuous efforts to enhance their coffee cultivation techniques. As a result, these regions are at the forefront of China's movement towards specialty coffee.

The rise in demand for specialty coffee, alongside the overall increase in coffee consumption, has prompted more corporations to enter the coffee market. Local and international companies alike are competing to provide better quality coffee to meet consumer expectations. This push for quality has led to innovations in both coffee production and service models, encouraging the development of new café concepts. These changes reflect the growing sophistication of China's coffee culture and its expanding market.

The delivery service industry has played a vital role in transforming the coffee industry in China. Platforms like Meituan have created new opportunities for café startups by reducing the need for large physical spaces and making coffee more accessible to consumers. This model not only supports the expansion of small coffee shops but also stimulates further growth in the coffee sector.

Looking ahead, the synergy between the coffee and delivery service industries is expected to continue driving the sector forward. As consumers seek higher-quality coffee and innovative café experiences, there remains substantial growth potential for the Chinese coffee industry to solidify its position on the global stage.

References

Development of GI-protected Baoshan Arabica coffee in Xinzhai village, Baoshan city, Yunnan province of China. (n.d.). OCOP. [https://www.fao.org/one-country-one-priority-product/asia-pacific/good-practices/detail/coffee-xinzhai-baoshan-yunnan-](https://www.fao.org/one-country-one-priority-product/asia-pacific/good-practices/detail/coffee-xinzhai-baoshan-yunnan-china/en)

[china/en](https://www.fao.org/one-country-one-priority-product/asia-pacific/good-practices/detail/coffee-xinzhai-baoshan-yunnan-china/en)

Exploring the coffees of the Yunnan Region with Indo-China. (n.d.). Climpson & Sons. <https://climpsonandsons.com/blogs/journal/indo-china-coffee-from-the-yunnan-region#:~:text=According%20to%20the%20Coffee%20Institute,a%20mountainous%20and%20fertile%20land>.

H, & Li, J. (n.d.). Arabica coffee production in the Yunnan province of China. *Dehong Tropical Agriculture Research Institute of Yunnan (DTARI), Yunnan, People's Republic of China.* https://www.researchgate.net/publication/280314851_Arabica_Coffee_Production_in_the_Yunnan_Province_of_China

CHONG, L. B. (2015). Nestlé: Crafting the art of goodwill in China. *Nestle.* http://www.mbs.edu.hk/alumni/events/download/Nestle_Crafting%20the%20art%20of%20goodwill%20in%20China.pdf

Statista. (2024b, February 13). *Production volume of coffee in Yunnan, China 2014-2022.* <https://www.statista.com/statistics/1303571/china-coffee-production-in-yunnan/>

Yunnan expands coffee production, processing. (n.d.). Chinadailyhk. <https://www.chinadailyhk.com/hk/article/289163>

孙迟. (n.d.). *More than just tea, China brews new success story.* Chinadaily.com.cn. https://www.chinadaily.com.cn/a/202107/01/WS60dd2379a310efa1bd65f202_3.html

F. (n.d.). *Coffee aroma from Wanning, S China's Hainan travels far and wide - People's Daily Online.* <http://en.people.cn/n3/2024/0320/c90000-20146996.html>

CoffeeBI Editorial Team. (2024, August 23). China's Coffee Production: A New Frontier In The Global Market. *CoffeeBI / Coffee Business Intelligence.* <https://coffeebi.com/2024/08/23/chinas-coffee-production-a-new-frontier-in-the-global-market/>

Statista. (2024c, July 23). *Coffee exports from China 2018-2025.* <https://www.statista.com/statistics/1046693/china-coffee-export-volume/#:~:text=In%20the%20coffee%20crop%20year,the%20crop%20year%202024/25>.

Starbucks China Coffee Innovation Park: Now Roasting. (2018, September 18). Starbucks Stories & News. <https://stories.starbucks.com/press/2023/starbucks-china-coffee-innovation-park/>

Zhang, H & Li, J & Zhou, H & Chen, Zhenjia & Song, G & Peng, Z & Pereira, A & Silva, Maria do Céu & Varzea, Vitor. (2013). Arabica Coffee Production in the Yunnan Province of China.

Times, G. (n.d.). *Luckin surpasses Starbucks to become the largest coffee chain in China.* Copyright 2021 by the Global Times. <https://www.globaltimes.cn/page/202402/1307738.shtml#:~:text=Chinese%20chain%20Luckin%20Coffee%20has,consumer%20market%20in%20the%20country>.

Briefing, C. (2024, August 23). *Urbanization in China - New action plan to facilitate urban migration.* China Briefing News. <https://www.china-briefing.com/news/urbanization-in-china-action-plan-migration/#:~:text=The%20rate%20of%20urbanization%20in,on%20rural%20and%20agricultural%20>

work.

Statista. (2024d, September 20). *Coffee market size in China 2020-2024*. <https://www.statista.com/statistics/1171765/china-coffee-market-size/#:~:text=In%202022%2C%20China's%20coffee%20market,369%20billion%20yuan%20by%202025>.

Liu, D., Wu, Y., Jiang, F., Liu, Y., & Tang, Y. L. (2021). The Prevalence and Associated Factors of Short Sleep Duration Among Nurses in Tertiary Public Hospitals in China: Findings

from a National Survey. *Risk management and healthcare policy*, *14*, 2547–2552. <https://doi.org/10.2147/RMHP.S315262>

Luckin Coffee, Inc. Q4 and FY2023 Earnings conference call transcript. (2024). *Luckin Coffee*. <https://investor.lkcoffee.com/static-files/98e3faaa-cd13-4511-a985-97fac4d34bb8>

顾馨 . (n.d.). *Meituan releases trends data ahead of Shanghai Coffee Culture Week*. *Chinadaily.com.cn*. <https://www.chinadaily.com.cn/a/202305/10/WS645b188aa310b6054fad228a.html>