Luxury goods firms boost China presence as decoupling with the West gathers pace

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Even though its borders remained firmly closed due to COVID-19, China still ranks as one of the largest and fastest growing markets for luxury goods globally, and one that every major brand is seeking ways to actively address.

Before the pandemic, more than 155 million Chinese people ventured overseas annually, and together became a major driving force of international tourism and luxury goods consumption, from Bangkok to New York -- often because of cheaper prices than at home.

Now that Chinese consumers are confined to their own market, many are opting to shop at stores close to where they live or work, in addition to the burgeoning online scene.

This change in circumstances has forced luxury goods makers to step-up their operations in China with some interesting consequences, which could be far-reaching and permanent.

Leading French luxury giant LVMH saw China sales soar by more than 31 percent in the last quarter when compared to the same period in 2019 (pre-COVID). Asia (ex-Japan) now accounts for more than 35 percent of its global revenues. Richemont SA, the Swiss group, saw revenues in 2021 increase by 22 percent in Asia Pacific, noting that retail sales were “particularly robust” in China, Dubai and South Korea.

LVMH said in its most recent financial report that it will continue its expansion, in particular in China. Increasing the share of online sales and digital communications is also a key priority, along with effective supply chain management in the context of elevated volatility.

Similarly, other luxury goods makers are committed to stepping up their presence in China, with a focus on tier one and tier two cities. Many are working in tandem with high-end shopping malls and department stores to address customers.

Leading the field is Beijing SKP, a state-owned shopping mall in the Chaoyang district, which has been transformed into an “experiential” department store – think art meets retail -- and who’s 2020 sales surpassed Harrods of London. Its sales per square metre outrank any store in the world.

The retailer brought in UK architect and design firm Sybarite to transform what was previously a fairly bland urban shopping mall into a mecca for high-end goods.

Indeed, so successful has it been, that the retailer has constructed a brand-new store opposite the original one, called SKP-S. Measuring 27,000 square metres, the four-story building is an art-driven, vision of a luxury department store. In some ways reminiscent of Selfridges, an upscale retailer in the UK, it features more than 1,000 high-end global brands — including Brioni, Dior, Gucci, Cartier, Dior, Hermès, Chanel, and Louis Vuitton – sit in line along with a carefully-curated selection of domestic names.

SKP also has a similar mall in Xi’an, Shaanxi province, and is building new ones in Chengdu, Sichuan province; as well as Kunming, Yunnan province.

Hainan has emerged as an important domestic market on the back of the rapid growth in domestic tourism aided by the removal of duties on many goods and generous tax allowances. Currently, Chinese citizens are allowed 100,000 yuan (US$15,000) of duty-free purchases on the island each year with much of that flowing to luxury goods items.

In 2021, Hainan amassed 50.49 billion (US$7.65 billion) yuan in duty-free sales, an 83 percent jump over the previous year, making it the world’s largest free trade port.

By 2025, the entire island of Hainan, totally 35,000 square kilometres, will be designated duty-free, and brands will no longer have to work with duty-free licensees. This indicates a boom for luxury goods makers as they look to set up shop on the island at various locations.

Elsewhere, Louis Vuitton held its latest men’s show in Shanghai last August and Richemont brought its annual international watch fair to the city for the first time.

Luxury brands are also experimenting more with online activities and livestreaming with mixed degrees of success. The idea being to build awareness more than conduct transactions, especially in lower tier cities. Many in the industry feel that the decision to buy a particular brand is now being made online before people go into a store, although the causality remains inexact.

Low rates of COVID-19 in China mean that face-to-face events can continue and remain an important vehicle of commerce, especially when intertwined with online activities including livestreamed content on Weibo, WeChat, Tencent Video, Douyin and Kuaishou.

Dior’s “Art’N Dior” exhibition, launched at the West Bund Art Centre in Shanghai, was run in collaboration with Huawei to create an immersive virtual reality film “My Cherry Blossom Land” viewable via the Huawei VR Video app, and Huawei VR headsets.

As domestic tourism booms, due to limited overseas travel options, China’s share of the global luxury market continues to increase. According to Bain and Co., the country's portion of the global market has almost doubled in two years to 21 percent. Bain cites that this is entirely due to the repatriation of Chinese purchases from overseas.

This meshes well with the Chinese government's “dual circulation” strategy by enticing people to spend money at home and boost the local economy rather than venturing overseas to other duty-free locations, such as Singapore or Thailand.

With its large size, China can generate a lot of growth momentum acting as a catalyst for other sectors of the economy. With heightened trade tensions between the U.S. and China, there is also a policy of self-reliance being sought – harking back to the 1960s and 70s.

China is adopting a policy of asymmetric decoupling: reducing its dependence on the West even as it seeks to boost the West's dependence on itself. The luxury goods industry is the latest element in this, mirroring similar moves in the fields of finance, smartphones, electric vehicles and commodities.

Despite the constraints of COVID, the importance of the Chinese market will only elevate. With this in mind, it's no wonder global brands are flocking in. Growth is growth and it makes sense for these firms to take advantage of the situation, beefing-up existing operations and applying more investment into the market, especially as overseas travel is curtailed. And unlike semiconductors and 5G equipment, luxury watches, clothing and handbags are unlikely to attract sanctions for being a national security threat.