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GOVERNMENT

How will China's customs crackdown impact shopping tourism?

October 8, 2018

Dolce & Gabbana's #DGLovesChina. Image credit: Dolce & Gabbana

By SARAH JONES

Chinese border agents are reportedly tightening their inspection of goods brought back from overseas, levying hefty customs on luxury products stowed in travelers' suitcases.

According to Bloomberg, posts are circulating on social media that show guards searching luggage for purchases over the duty-free limit and taxing some merchandise at up to 60 percent. Chinese consumers are driving the bulk of luxury's growth and most of these shoppers make their luxury acquisitions while abroad, making this stricter cross-border movement of goods a potential disruptor for the business.

"Tourism is a substantial driver for luxury purchases throughout the world," said Chris Ramey, president of Affluent Insights, Miami, FL.

"The object is to stop the practice of daigou," he said. "According to BBC, there over 1 million daigou throughout the world.

"The threat that government may take your purchases will greatly dampen tourist sales. It will also change how tourists travel and shop."

Chinese consumption

Boosted by a rebound in China, the global luxury market is projected to grow between 6 to 8 percent this year, according to Bain.

The researcher's "Luxury Study 2018 Spring Update," presented in partnership with Altagamma, found that China will account for much of luxury's growth this year, with sales in the market expected to rise between 20 and 22 percent (see story).

While Chinese shoppers have recently been buying more at home, the majority of their luxury purchases are still made while on vacation in other countries. Due to differences in taxes, goods bought overseas are often less expensive than the same luxury products in China.

Research from YouGov found that 51 percent of Chinese travelers look to purchase luxury goods while they are away.

Chinese consumers tend to shop when abroad. Image credit: Peninsula Hotels

In the United States alone, an estimated $13,400 is spent per every Chinese traveler. During the beginning of 2016, 2.6 million Chinese consumers spent a total of $34.8 billion from January to October (see story).

Along with buying for themselves, Chinese tourists often buy for their friends and family while they are on holiday. The practice, known as daigou, also extends to agents who buy goods overseas for China's residents.

China's limit on goods that can be brought back tax-free by its residents is 5,000 yuan, or about $728 at current exchange. As Chinese travelers return from trips to Japan, Europe or the United States, they are obligated to declare purchases and pay taxes on anything that exceeds this threshold.

Reports of the customs crackdown came during China's Golden Week, a national holiday that is a popular travel time for residents. About 7 million Chinese tourists were traveling abroad from Oct. 1 to 7, with Japan the most popular international destination this year, according to data from booking site Ctrip.com.

Chinese consumers traveled internationally for Golden Week. Image credit: Mandarin Oriental

Following social media videos of border guards searching luggage for luxury and a photo of a receipt showing a 60 percent tax on cosmetics, investors have indicated concern about luxury's growth potential. Stocks for companies including LVMH, Shiseido, Kering, Tapestry, Mulberry and Burberry fell upon word of stricter customs control, according to Women's Wear Daily.

A report from China National Radio quoted a customs official, who said that no changes had been made to customs practices.

Retail relations

This development comes amid a strained relationship between the United States and China.

Officials from the United States and China met in August to discuss the contentious trade negotiations between the two countries for the first time in months, continuing to negotiate tariffs that could have a major impact on two of the largest luxury-consuming nations in the world.

The discussion came amid tense talks that have gone on between the two countries, exacerbated by comments from President Donald Trump predicting that there would be little progress from the meeting. Representatives of groups such as the National Retail Federation have condemned the harsh tariffs placed on China and the ensuing trade war, stating that it is bad for business and for consumers (see story).

Since then, the trade war has only continued to escalate.

Luxury investors still fear a possible trade war between the United States and China in spite of a positive first half to the year.

Kering, Tapestry and Tiffany & Co. were among the companies that have seen strong results in 2018, but London's Savigny Partners finds that uncertainty remains as luxury brands continue investing in the Chinese market. Its global luxury index rebounded slightly in August but has not recovered from its losses at the beginning of the summer (see story).

"For luxury brands this is a blip or at worst, a shift in channel distribution," Mr. Ramey said.

"It's human nature to want what you can't have," he said. "The crackdown will serve to enhance desire for luxury brands ultimately the goal for every luxury marketer."