

RETAIL

Can Macau replace Hong Kong as a high-end shopping destination?

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An authentic gondola floats on the Grand Canal at the Shoppes at Venetian in Macau. Image credit: Shutterstock

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- Macau is well positioned for future growth because of the Chinese government's ambitious economic proposals.
- Macau's history of shared colonial rule has led it to favor national policies, unlike Hong Kong.
- Nationalist Chinese shoppers prefer spending in Macau and want to punish Hong Kong for its defiance.

In the past few years, the city of Macau's ostentatious casinos and high-end stores have been attracting Chinese high rollers.

Interestingly enough, the appeal of Macau has grown exponentially as the [chaos in Hong Kong](#) lingers, and affluent mainlanders have warmed up to this former Portuguese territory.

But Macau's rise as a high-end shopping destination did not come overnight.

The city made great progress back in 2007 when "the luxury retail industry was centered on the Mandarin Hotel, and there was nothing else," according to Michael Schriver, the former chief operating officer of DFS Group and current president for North Asia at Louis Vuitton.

This view is shared by David Sylvester, senior vice president of retail at Sands Retail for Sands China Ltd., who told the [South China Morning Post](#) that when the group started leasing out the 330 retail spaces at the Venetian in 2005, the comment he kept hearing was "that Macau is for gaming, while [Hong Kong is for shopping](#)."

According to Mr. Sylvester, the growth in gaming has reshaped the local retail ecosystem.

Macau's economic boom is undisputedly linked to the city's dutiful and compliant approach to China's government, and if Hong Kong plays the role of "woke" activist, Macau is more akin to the risk-averse brother who safely bets on seeking profitability and economic growth instead of total independence.

Interestingly enough, both cities are governed under the "one country, two systems" structure, so one might expect

the same revolutionary vibe from Macau that Hong Kong is displaying.

History, however, has played an important role in Macau's development.

While both cities were European colonies, one was governed by a crippled Portuguese power while the other was the crown jewel of the all-powerful British Empire.

Over the years, the British government poured resources into Hong Kong and encouraged liberalism and the pursuit of equality and individual liberties.

But Macau's situation was far more complex, given the complications that arose from the 1887 Lisbon Protocol.

Many historians, in fact, argue that China and Portugal shared sovereignty of Macau even before the 20th century. Because of this, one could say that Macau's situation has created a dependent personality disorder, leading to the city's intensified respect for authority or dominant powers.

This docility has made Macao a very wealthy city one that continues to flourish at its own pace.

Considering the turmoil in [neighboring Hong Kong](#), it is safe to say that Macau's star will continue to rise, and the city's luxury boutiques have reported a sales growth thanks to affluent mainland Chinese buyers turning away from neighboring [Hong Kong](#) and embracing consumerism in Macau.

Angelise Wu, a wealthy shopper from [Beijing](#), told the [Nikkei Asian Review](#) that she will not buy luxuries in Hong Kong, even after the protests end.

"I just don't feel like contributing to its economy," she said.

This attitude is common, and there is a growing belief that "disobedient" locals should not be rewarded for their insurrection.

Various posts appeared on Weibo and social media criticizing not only Hong Kongers but also foreign corporations that supported the protests.

Examples include [French bank BNP Paribas](#) coming under fire because one of its employees took a pro-democracy stand, a [#BoycottCathayPacific](#) hashtag that attracted more than 17 million views and 8,000 comments, and how even a Taiwanese tea house named Yifang fell victim to social media outrage, with [The Global Times](#) reporting that the [#bubbleteaboycott](#) attracted more than 230 million views on Weibo.

According to German state-owned public international broadcaster [Deutsche Welle](#) and Claudia D'Arpizio from Bain & Co., protests were responsible for more than 2 billion in Hong Kong sales losses in 2019.

Bain's recent report shows that Hong Kong's power is dwindling, and the city that once accounted for around 5 percent of global luxury sales now barely reaches 2 percent.

Furthermore, the report argues that luxury sales in Hong Kong, which reached 10 billion (\$11.09 billion) in 2013, will most likely drop to 6 billion for 2019.

The protests have caused havoc for even the most acclaimed luxury conglomerates and businesses.

Prada is not renewing its lease on Causeway Bay, vacating the property that was leased for 1 million in monthly rent.

Burberry has registered an alarming "double-digit" decline in sales in Hong Kong, Chanel intended to inaugurate a store on Fashion Walk in the Causeway Bay district but temporarily suspended the project, Rimowa stopped short of opening a new store in the same district, and [Louis Vuitton is shuttering its Times Square Mall store](#).

Considering Hong Kong's dire perspectives, does Macau has the potential to replace the former and become the "ultimate shopping destination" in the Asia-Pacific region?

Here are some reasons why it could happen:

Favorable pricing

First, the price discrepancies between Hong Kong and Macau have decreased significantly and will work in Macau's favor.

Those famous shopping sprees that mainland Chinese luxury buyers used to take to Hong Kong should be replaced with trips to Macau, and we foresee luxury players further developing their assorted strategies in Macau and generating higher profit margins.

Second, despite Premier Li Keqiang's latest tax cuts, Macau's luxury prices remain competitive.

Therefore, it is safe to say that the city will soon compete not only with established Chinese shopping destinations, but also with international hot spots such as [Japan](#), [South Korea](#), Singapore and Thailand.

A "China-friendly," open-for-business attitude

In an increasingly patriotic country such as China, local consumers appreciate loyalty.

We have seen on various occasions how companies that stand with China get endorsed by local entities and are rewarded with higher profit margins and increased consumer confidence.

By contrast, businesses that engage in "unpatriotic" actions experience a full-force nationalistic backlash.

For instance, [Lenovo](#) stirred controversy when CEO Yang Yuanqing said in an interview that the company is not a Chinese brand, but a global one.

That same "China-friendly" attitude is even expected from strategic partners, and Beijing understands that the carrot-and-stick concept is perfect for keeping accomplices in check.

As an example, President Xi Jinping visited Macau to commemorate the city's 20th-anniversary return to China last month and, according to [CNBC](#), Mr. Xi will generously reward Macau's loyalty with a series of policies that will significantly impact on growth.

[Those policies include](#) the establishment of a yuan-denominated stock exchange in the Chinese special administrative region and greater land allocation in mainland China for Macau to develop.

All in all, Macau has been good to China, and Beijing's policies and pro-Macau stand are good for the local business community.

The broader retail look

After seven months of protests and political unrest, Hong Kong's retail scene is in bad shape.

Many stores are at risk of closure, and [Reuters](#) reports that more than one in ten retailers in Hong Kong could close over the next six months.

The Hong Kong Retail Management Association (HKRMA) said that retail sales decreased by a quarter in October 2019 from a year earlier, and tourist arrivals declined by 43.7 percent over the same period.

By contrast, Macau is diversifying tourism to attract affluent visitors from Indonesia.

WebBeds, the Macau Government Tourist Office and some established Macau hotels including MGM Cotai and Hotel Lisboa have inaugurated a campaign designed specifically for Indonesian tourists.

This diversification is a brilliant strategic move designed to lure consumers who traditionally belonged to the Hong Kong market.

According to [Skift](#) and MGTO statistics, Macau saw a record of 35.8 million arrivals in 2018, with 71 percent of those visitors coming from mainland China and another 18 percent coming from Hong Kong.

So it should not come as a surprise that Macau wants to attract visitors from other countries, too.

Strategic positioning

Macau has a strategic position in the Greater Bay Area, and it could easily replace Hong Kong as a trade hub.

In fact, China revealed an ambitious plan last year proposing the creation of an "[innovation cluster](#)" that would rival [America's Silicon Valley](#) by linking Macau, Hong Kong and nine other Chinese cities via infrastructure projects.

This would further consolidate the status of each urban settlement, including Macau, and since Hong Kong is losing its gloss and allure, Macau could be empowered to take the city's place as a top regional trade hub.

This consolidation will not happen overnight, and significant development differences will hinder the process. But the fact that Macau has become a regional tourism and trade hub in only a decade proves that the city has immense potential.

RIGHT NOW, what the future holds for Hong Kong is unclear.

But Macau continues to grow as a high-end shopping and tourism destination, and this affluent and obedient city is looking ahead towards a promising future.

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