Luxury Daily®
The News and Intelligence You Need on Luxury

RETAIL

How will the digital yuan impact luxury consumption?

September 1, 2020

By A LUXURY DAILY COLUMNIST

By Adina-Laura Achim

Both TechNode and Caijing reported that several employees at China's largest banks are testing the country's much-anticipated digital currency "on a large scale."

These trials are an extension of the pilot programs inaugurated by China's central bank in April, and the ongoing work indicates that China is rushing to launch the final product as soon as possible.

The idea of a digital yuan was launched back in 2014, but since then, it has had to overcome various obstacles. And while other nations are preparing to launch their own digital currencies, their challenges seem to be different from the ones encountered by China a country where experts point towards protectionist tendencies, tight control on capital flows, and the lack of transparent monetary policy frameworks as possible setbacks.

But despite difficult circumstances and enormous challenges, the digital yuan has the incredible potential to revolutionize China's payment systems and "mark a change in the international monetary system," according to Stewart Paterson, research fellow at Hinrich Foundation.

Mr. Paterson rightfully highlights that the digital yuan "gives enormous power to the Chinese state and the trade implications are significant."

In fact, the digital yuan will help to internationalize the Renminbi (RMB), while undermining the status of the dollar as the dominant global currency.

In addition, it will compromise any aspiration of isolating China through discriminatory

trade practices, sanctions or boycotts.

Moreover, Beijing could sidestep U.S. economic sanctions and surveillance while also building closer ties with new trading partners.

In the foreseeable future, it is expected that emerging markets could bypass the dollar-centric financial system and move toward the digital yuan.

Since emerging markets depend on trade transactions and emergency financial assistance from China, they might not be able to ignore Beijing's requests. This would facilitate the access of Chinese enterprises and organizations to the global market.

Afterward, it is expected that these Chinese companies would greatly dictate service offerings, sales and production volumes, and price strategies.

How will the digital yuan impact luxury consumption?
Luxury goods are mostly produced in mature markets in Europe and America.

However, the fact that the U.S. and E.U. governments will probably embrace the digital yuan at a subsequent stage does not necessarily imply that even the business community or luxury conglomerates will do the same.

Take, for example, Kering and LVMH both group's profits strongly depend on sales from mainland China.

In the post-COVID-19 world, even luxury conglomerates are having a tough time.

Kering's consolidated revenue in the first half of 2020 amounted to 5,378.3 million, down 29.6 percent and the recurring operating income amounted to 952.4 million, down 57.7 percent from the first half of 2019.

On the other hand, LVMH reported revenue of 18.4 billion in the first half of 2020, down 27 percent. And despite challenges, China represented a silver lining for these luxury conglomerates.

Moreover, *Vogue Business* reports that sales at the LVMH fashion and leather goods division in China grew more than 65 percent in the second quarter, while at Kering, China was up approximately 40 percent.

Considering the luxury industry's dependence on China, it is not surprising that international brands have adopted China's digital economy with its unique digital ecosystems and mobile payments.

Given this, it is expected that the luxury industry will continue on the same path, embracing the groundbreaking new currency without too much resistance.

In regard to luxury consumption in China, we foresee that the digital yuan will spur national consumption because digital currencies enable swifter and less-costly transactions.

In addition, it is to be expected that China will revitalize domestic consumption through increased spending and a boost in the value and volume of transactions.

There is also an element of newness to the digital yuan, which will surely appeal to the always on, digital-savvy generation who's on the lookout for cool, authentic experiences.

Furthermore, the new digital currency represents flexibility and expediency two qualities that Generation Z and millennial consumers pursue. We expect them to be more susceptible to the digital alternative than the older, more conservative base.

All in all, the digital yuan will slightly boost the GDP of China. But it will bring even greater benefits to emerging markets that suffer under low credit card penetration.

For the latter group, China's digital currency could stimulate economic growth and create millions of new jobs, with China's help, of course.

Published with permission from Jing Daily. Adapted for clarity and style.