

GOVERNMENT

What a Trump win would mean for luxury

October 27, 2020



As America gears up for its November election results, Jing Daily looks at the impact a Trump vote would have on the luxury industry. Image credit: Shutterstock

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Millions of Americans have already cast their postal vote in the 2020 presidential election, which takes place amid the most polarized electorate in U.S. history.

After four years of an unconventional and equally unpredictable **Donald Trump** presidency, leviathan chasms now exist between both sides, with pro-Trump fans on one and everyone else on the other.

Under this presidency, the luxury and wider fashion industry has become more vocal than ever before on political issues. Industry leaders such as **Philip Lim and Prabal Gurung** as well as **Nike and Adidas** have all spoken out to some degree against his actions.

Mr. Trump's legacy thus far started with a first election campaign run on calls **for a border wall with Mexico** and a crackdown on immigration **both are rallying cries** of this second campaign, too.

Soon after being elected, he quickly set about trying to dismantle some of his predecessor's actions, including **environmental policies** and **the Affordable Care Act**.

Then, at the start of 2020, the coronavirus hit, after originating in the Chinese city of Wuhan in Hubei province. Since its outbreak, Mr. Trump has been **widely criticized for his handling of the outbreak**.

Mr. Trump's administration has also continuously ramped up **anti-China rhetoric**, and his trade war with the **country** has paved the way for chilly relations between the two countries a situation that is **unlikely to stabilize** should he be re-elected.

Additionally, he has presided over the biggest mass protest in **U.S. and global history** over the murder of George Floyd and others.

Now, on the precipice of this election and facing the possible untold economic and political effects of another four years of a Trump presidency, the luxury business finds itself at an intersection: it must embrace its responsibility to take issues of injustice, sustainability and equal treatment into its own hands.

The fashion industry has **come out more unequivocally in support of Mr. Trump's Democratic rival, Joe Biden**. Yet, Trump has found some supporters in the ranks, **from New Balance to Estée Lauder**. His fan base can never be written off though nor his potential refusal to accept the election results.

Now, thanks to a litany of issues, Mr. Trump **is currently trailing in the polls**. But if he does win this election, how would it impact luxury and U.S.-China relations? *Jing Daily* takes a closer look.

Even more U.S.-China tensions? Yes, it is possible.

China seems to have won its battle against COVID-19, and its economy and retail sales are rebounding well.

Domestic designers and tech companies are gaining ground at home and elsewhere, too: Fast-fashion brand Shein, for one, has found a new millennial audience in the United States.

China and America have never been good bedfellows.

Under the stewardship of Mr. Trump, the relationship has reached its lowest point since the Nixon years.

Mr. Trump's first three years in office were strikingly harsh against China trade. But at that point, domestic Chinese expansion or its internal policy was less worrying: from the rollout of 5G masts from Chinese mobile giant Huawei to the human rights abuses against the Uighur population and the cotton production facilities that were linked to numerous notable fashion brands.

Mr. Trump's strategies have come under further scrutiny with **the uncovering of a bank account in China** and the knowledge that he paid roughly \$200,000 in Chinese taxes.

According to Tommy Wu, lead economist at the forecasting firm Oxford Economics, China's growth on the international stage indicates that we will see a further decoupling of the U.S. and China regardless of which candidate wins.

The Holding Foreign Companies Accountable Act, which was passed in May, could force up to 200 Chinese companies to delist and re-enlist back home, including Alibaba. This legislation comes at a time when Chinese tech company shares are soaring.

Other antagonisms such as rare consulate closures in Washington and **Chengdu**, attempts to ban Chinese apps including WeChat, and interference with the Chinese company ByteDance-owned app **TikTok** have also added fuel to the fire.

According to Ben Cavender, managing director at China Market Research Group, the trade war has taken a backseat to **COVID-19** and the economy over the last couple of months.

"If Trump wins, there will be a lot of discussion about the general economy, so there might not be the bandwidth to keep the tariffs up," Mr. Cavender said. "The focus will be more on how to stabilize things in the U.S. economy."

Either way, retaliations from both sides are reimagining what many have called **a new Cold War** one that might be difficult to unwind.

Therefore, if Mr. Trump is re-elected, his aggressive anti-Chinese stance is unlikely to dissipate and could alienate Chinese Americans, and limit Chinese migrant and tourist movement.

Given China's pivotal spending in the sector, Mario Ortelli, managing partner at the M&A advisory boutique Ortelli & Co, suggested that a Trump win could further threaten luxury's future, which depends on a healthy economy and happy consumers.

"Chinese spending in the U.S. is linked to a welcoming visa policy and environment, as well as, a favorable FX [foreign exchange]," Mr. Ortelli said.

But he also noted that it could have positives too, such as lower taxes and higher discretionary spend.

Regardless of the outcome, he said, "The customer should have a wallet full of money and the mindset to spend it. Whatever leaves them with more disposable income like, for example, lower taxes and peace of mind allows them to invest and splurge, which is better for luxury."

A cooling-off of the trade war is unlikely given how politicized the debates have been, and Mr. Trump resolutely wants to be seen to be "tough on China." A number of the aforementioned issues, from China's industrial practices to COVID-19, means that the trade skirmish unlikely to stay out of the spotlight for very long.

A tariff blowback, but also a silver lining?

Luxury goods could be under additional fire if Trump is voted back in, Mr. Wu said. He argues that under a second Trump administration, there will be a smaller chance that the U.S. will have a consensus with the European Union regarding the global tax reform of multinational companies, with U.S. tech giants being the notable targets.

"This means that there will be a higher chance whereby the E.U. or individual European countries will unilaterally raise taxes on these companies, and in such case, the U.S. will retaliate, and luxury goods will be a likely target," Mr. Wu said.

The U.S. has already targeted France over its tax on tech companies by placing 25 percent tariffs on \$1.3 billion-worth of French goods, including luxury, handbags, and cosmetics. **These tariffs are earmarked to go into effect in January 2021.**

Other commentators such as Mr. Ortelli agreed with this assessment, which is worrying news for luxury brands and conglomerates. But on the flip side, if Mr. Trump should decide to apply import taxes on foreign products of different categories and origins, then the disposable income of the wealthy would be protected.

"Consumers are keener on spending more on luxury when the economy is positive, and they are paying less tax," Mr. Ortelli said. "But, in case of higher import taxes on European luxury goods, there can be a negative impact on the sector."

On the other hand, some are hopeful that a Trump win might, in fact, see him distracted again this time from tariffs.

"I think also we are probably looking at a scenario where he tries to de-escalate on the tariffs front," Mr. Cavender said, adding, "calling things "a win," even if nothing really changes.

"It's unlikely we'll see more aggressive tariffs particularly as the dollar is weakening right now," he said. "So this should, in theory, make U.S. exports more appealing to overseas buyers more so this adds to his story of resetting the trade balance."

Should Mr. Trump be re-elected, a continuation of taxes on foreign luxury goods could have a positive impact on fashion companies in the U.S. although those benefits are more likely to be felt by bigger over small to mid-sized businesses.

Smaller companies should also be further hampered by the recent announcement that Mr. Trump is delaying **additional coronavirus stimulus packages.**

As Mr. Cavender explained, Mr. Trump has always favored big corporations, and this is unlikely to change.

"With Trump, you're likely to see large amounts of interest directed to corporations, and if you have the connections, you'll have more access to unrestricted cash to use any way you want," Mr. Cavender said.

But, one advantage for U.S. brands could be near-shoring. However, this might only work for low-cost sectors such as activewear or apparel.

Only luxury companies with a production site already located in the U.S. such as **Louis Vuitton, which invited Mr. Trump to the opening of its Texas factory** will be able to ensure they have the products to put directly into stores.

As November approaches, who will be the real winner?

The fashion industry is now undergoing a Darwinian-style overhaul, and not all labels will survive, regardless of the election outcome. But luxury and China are intrinsically intertwined, and China's consumers have been pivotal in this recovery.

As far back as March, Chinese consumers turned to **revenge spending** in China's stores. On **International Women's Day** (March 8), brands on **Tmall** experienced double-digit sales growth, as compared to last year.

Mr. Cavender confirmed that labels are reliant on favorable relations with China now more than ever, and the sales numbers bear that out. He said that "the brands doing well are the ones that have been able to connect with Chinese **consumers digitally** during the crisis." And, if the U.S. continues its tariffs on European luxury, local brands are unlikely to ever replace those sales among domestic consumers.

Perhaps **jewelry** might benefit, as consumers could swap in a national brand, Mr. Ortelli said. But in reality, that is unlikely "due to the unique attachment consumers have to their preferred labels," Mr. Ortelli said.

"Honestly, in luxury, the consumer usually has brand loyalty and is not looking for an alternative," he said.

Whether you are for him or against him, you must credit Mr. Trump with transforming the political landscape. But it has hardly been for the better, and the consequences have been far-reaching.

The global positioning of the U.S. is in tatters and looks radically different than when he first took office. Now, we can say, **the world looks down at the once-powerful nation**.

Meanwhile, progressive environmental moves from President Xi, who committed to **carbon neutrality by 2060** and a green revolution after the outbreak, has only strengthened China's importance on the global stage.

Regardless of the outcome in November, there will be luxury casualties abound, and only one economy is positioned to win at this point.

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