

RETAIL

## Where will Chinese consumers buy luxury when the world reopens?

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*After COVID-19, Chinese luxury consumers will return to buying goods abroad, but the tourism market will look much different than before. Image credit: ROARINGWILD*

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The luxury sector was moving from a global, travel-oriented market to a more local industry well ahead of the COVID-19 spread. Chinese luxury consumers, in particular, used to purchase goods mostly while traveling outside of the mainland to Europe, South Korea, Japan and Hong Kong.

Purchases on these trips were essentially motivated by price, as Hong Kong is a duty-free zone, and Europe had been the cheapest place to buy Italian, French, Swiss and British brands. Additionally, Japan and South Korea are hip, culturally fascinating locations for [Chinese consumers](#).

On top of that, 10 years ago, there was a perception in mainland China that the local product assortment was not as broad compared to other markets, and, quite frankly, some consumers doubted whether they were even purchasing the real product.

Looking at the situation today, all of those reasons not to shop at home in mainland China have been flipped upside down. Price harmonization has been broadly enacted. Sure, you still pay a premium relative to Europe or Hong Kong, but maybe an additional 20 percent, not 50 percent, as was the case just a few years back. That number is much closer to the VAT rate and is seen as more acceptable.

Also, the product range in China is now, for most brands, the broadest on the planet. That is because Chinese consumers are so paramount for brands today that many of their product launches take place in Shanghai before they roll out elsewhere. And, of course, brands continue to build tried-and-true, bricks-and-mortar stores in China and are available through a massive omnichannel network via [Tmall](#), [Farfetch](#), [Yoox](#), [Net-A-Porter](#) and many more.

More recently, with borders still broadly shut due to COVID-19, domestic travel has been soaring. And with it, China has witnessed the emergence of Hainan an island province known as the "Chinese Hawaii," which boasts a tropical climate, high-end hotels, beaches and, importantly for luxury, the largest duty-free mall in the world, [Haitang Bay](#).

This shopping center happens to be geared towards domestic purchases and has recently benefited from new, more

favorable regulations. That has boosted luxury sales to the point where some brands are now generating more business on **Hainan** than in Hong Kong, which was once the undisputed Mecca of high-end purchases.

Japanese consumers were dominating luxury sales in the early aughts, but the Chinese are today.

Initially, the Japanese purchased 80 percent of their luxury goods abroad. But last year, pre-COVID-19, they were purchasing more than 80 percent at home.

In 2019, Chinese consumers bought two-thirds of their luxury abroad, but this year, that will have reversed. Artificially, as there is currently nowhere to travel outside of China.

Will Chinese luxury consumption follow Japan's lead and soon take place predominantly on the mainland? The answer is mostly, but there is a catch.

With maturity, consumers tend to become locavores, which, again, is helped by prices, trust and retail infrastructure. But and it is a big but when borders reopen after COVID-19 has ended, Chinese consumers will initially start purchasing abroad again.

Why? First, pent-up demand. The urge to travel after months of having it restricted is real, and it is not specific to one nationality.

When I first read articles about consumers booking seats for "flights to nowhere," I was dumbfounded. But airlines have offered this awkward concept of taking off and landing in the same airport in Taiwan, Brunei, Australia and Japan, and tickets were snapped up in no time.

Second, unlike Japanese citizens or, for that matter, Western nationals the passport penetration rate in China is still only in the low double-digits. So when the world reopens, many Chinese consumers will want to discover the rest of the world.

Today, Chinese luxury is being bought on the mainland as there are no other options. But, frankly, it is a better option than it was a decade ago.

Hopefully, if COVID-19 comes under control in other parts of Asia, we can expect a travel corridor to be established that allows Chinese consumers to travel to places such as Singapore, **Hong Kong**, Macau, South Korea and Japan.

Next year, after the West hopefully recoups from multiple waves of COVID-19, those travel destinations will again become relevant places where the Chinese can purchase luxury.

But over the long term, in a stabilized travel environment, I believe that Chinese consumers will incrementally continue to purchase more at home.

If you are managing a **luxury business** outside of China, the silver lining of this crisis is that you now realize tourism flows should be considered the cherry on the cake and, as such, you are now catering to local consumers far better than before.

If you look at the business being done in China, that is the cake, and you should invest there accordingly.

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