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Will a reboot in China-US relations help luxury?

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It is expected that U.S. President Biden will select a more measured style when dealing with China. How will this new approach affect luxury brands? Image credit: Shutterstock, The New York Times. Composite: Haitong Zheng

By Adina-Laura Achim

China's Foreign Minister Wang Yi has called for a reset in the U.S.-China bilateral relations.

The call coincides with the arrival of a new U.S. administration with President Biden and Vice President Harris, both Democrats who are more inclined to international alliances and the United States' participation in international treaties.

"The most urgent task currently is for the two sides to work together to remove all sorts of barriers to achieve a smooth transition in China-U.S. relations," Mr. Wang said.

"At the same time, based on the direction of mutual benefits for our two peoples and countries, we need to strive to restart dialogue, return to the right track and rebuild trust in this next phase of relations," he said.

Mr. Wang also encouraged the business community to "play a larger role" to consolidate bilateral relations.

The Biden-Harris administration represents a return to dialogue and diplomacy. However, it is highly idealistic to expect that the change in administration would represent the end of the new era of great power competition.

In fact, Biden's past remarks, such as calling President Xi Jinping a "thug," suggest that the newly elected-president is not inclined to de-escalate the conflict anytime soon.

"The China-U.S. relationship will not go back to where it was before," Cheng Xiaohe, an associate professor of international relations at Renmin University in Beijing, told *The Guardian*. "The relationship is so bad."

Ferdinando Nelli Ferrucci, a former European commissioner who is president of Istituto Affari Internazionali, echoed this feeling.

"My impression is that the attitude of the new administration basically towards China will not change," Mr. Ferrucci told *Business Insider*.

But despite challenges, it is expected that the Biden-Harris administration will select a more measured style when dealing with China.

An approach that is more refined and skillfully crafted instead of former President Trump's "tough-guy" foreign policy and rhetoric. Evidently, this implies multilateralism and greater cooperation with its Western allies.

However, the bitter standoff between China and the U.S. is set to continue, causing a considerable strain on small business, consumers, and even international companies. But what are the consequences for the luxury industry?

Europe might finally find its voice in the strategic rivalry between China-U.S., and come out as the winner

Until recently, Europe was split on taking sides in the rivalry between the two global powers. And occasionally, the European Union's love-hate relationship with China gave the impression of chronic indecision.

But considering the E.U.'s negative economic forecast, and the severe socio-economic consequences of the COVID-19 pandemic, it is highly probable that the European powers will decide to ignore China's economic bullying attempts to secure strategic investments that would keep its critical assets afloat.

In April 2020, at the 21st E.U.-China Summit, it was announced that the two partners will work together "to provide each other with broader, non-discriminatory market access."

Moreover, the partners will create a business environment that is both fair and transparent for European and Chinese investors, according to the European Commission.

"In today's world, our partnership is more important than ever before," said E.U. President Jean-Claude Juncker. "We share the same belief that working together makes the world a stronger, safer and more prosperous place."

The European luxury sector is particularly vulnerable right now. Artisans, skilled workers and small to midsized firms do not have access to long-term income support or the same opportunities as established luxury brands, thus, they need to increase their capital options.

Facing the new reality, the E.U. might select to strengthen the cooperation with capital rich China to save the small and midsized businesses operating in the creative fields.

Considering that China's investment in European luxury has increased proportionally over the past three decades, we anticipate a continuation of the trend.

The buyouts and investments are not limited to the notorious ones such as the acquisition of Sonia Rykiel by Hong Kong-based First Heritage Brands or the acquisition of Cerruti 1881 by Chinese clothing retailer Trinity Limited.

Occasionally, Chinese investors have selected to become silent or minority partners, investing only capital in European businesses.

Gloomy fate for American brands

Even under a Biden administration, American brands will continue to be the biggest losers.

We expect President Biden to embrace a pro-Hong Kong stand and reaffirm the United States' commitment to the cause of the Uighur Muslims in Xinjiang province. These moves will further alter the already fragile bilateral relationship.

Given this, Chinese consumers may respond to President Biden's policy by boycotting American brands.

Moreover, Beijing may retaliate by blacklisting U.S. companies and slapping them with fines or creating additional barriers to market entry.

In 2018, for example, authorities in Shanghai closed down Marriott's Mandarin Web site for a full week after the hotel staff sent out a customer questionnaire that listed Tibet and Taiwan as separate countries. Similar sanctions are likely to follow, especially now that China has established the Unreliable Entities List regime.

Overall, American brands and entities will continue to suffer because of ongoing tensions, and it is unlikely that a possible reset of the diplomatic relations could make Chinese consumers fall in love again with American brands.

If U.S. companies want to thrive in China, they need to learn the importance of emotional branding and steer clear of hot-button political issues.

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