

TRAVEL AND HOSPITALITY

## Chinese luxury staycationing at its best: The Hainan experiment

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*Hainan may not be your idea of the ideal vacation, but it is sure good enough for some serious shopping now. Image credit: Qeelin's Weibo*

By [Erwan Rambourg](#)

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As the COVID-19 pandemic began to spread globally almost a year ago, [travel plummeted](#) and, with it, [duty-free sales](#), as consumers stopped traveling abroad.

All of the luxury brands with exposure to travel retail reported significant declines globally as consumers stayed home and [out of airports](#), and visibility on how and when travel could start again remains poor to this very day.

Despite the rough circumstances, the appetite for luxury products has proven to be more resilient than even the optimist had in mind. And mainland China, in particular, has seen [tremendous growth in domestic luxury consumption](#).

I first went to [Hainan](#), a semi-tropical island off the coast of mainland China, seven years ago. It had been designated a duty-free shopping center, and I was there to assess its potential as an alternative luxury hub to Hong Kong.

Since then, luxury sales there have skyrocketed thanks to grounded, keen consumers, and [more favorable tax and regulatory policies](#).

Hainan is also known as the "Chinese Hawaii" or the "Chinese Jeju" which itself has been pitched to me as the "Korean Hawaii" though I have to say that I have not found it as visually exciting. But as a shopping destination, it is definitely a jaw-dropping experience.

During Golden Week (Oct. 1-7, 2020), sales reached RMB1.04bn (\$155 million), up nearly 150 percent year-on-year, according to [Xinhua Net](#).

Long gone are the discussions around travel corridors opening between mainland China, Hong Kong, Macau and Singapore.

With COVID-19 cases resurfacing in many parts of Asia and restrictions still very high, Hainan has a substantial role to play in terms of luxury sales and it is likely the island will get its fair share of mentions as brand managers

scrutinize Chinese New Year luxury sales.

What changed in recent months is essentially around regulations surrounding purchases having been relaxed.

On June 1, 2020, the mainland China government announced the creation of the Hainan Free Trade Port. This included raising the annual offshore duty-free allowance for shoppers in Hainan from RMB30,000 to RMB100,000 (\$4,500 to \$15,000).

In the month prior, companies began allowing consumers to spend any remainder of their annual allowance online for up to 180 days upon return to the mainland.

On July 1, the number of categories of duty-free goods available at Hainan was expanded to 45, including laptops, mobile phones, spirits and wines, and quantity limits on most categories have been removed. Previously, visitors were limited to purchases of RMB8,000 per product.

To be sure, shopping from home never looked so good, and I remain a believer that even in a post-COVID-19 world, the structural repatriation of growth to mainland China will prevail.

However, Hainan sweetens the deal as consumers are able to get the benefits of duty-free shopping while staying at home, which should prove supportive to luxury consumption in mainland China during [this year's Chinese New Year](#) and beyond.

Hainan's continued success could also put additional pressure on other markets that previously relied on mainland Chinese luxury consumption, notably Hong Kong, [Macau](#) and Europe.

In June 2020, the Chinese administration announced plans to make Hainan a free-trade zone with a visa-free entry for 15 days for tourists traveling by cruise ships, self-declaration for foreigners, and lower tax rates and other financial incentives for companies and individuals wishing to operate there, as well as looser shopping restrictions already mentioned.

The port will also streamline foreign investment by removing the review process and only requiring foreign companies to meet certain compliance requirements and submit a registration to operate.

Additionally, logistics incentives include attracting and supporting airlines to make Hainan a regional hub and exempting aircraft from import duties, import VAT and consumption taxes, plus giving cruise and yacht companies preferential policies, as well as building the largest home port for cruises in the world.

Objectives by 2025 include turning the province into a zero tariff, free-trade port by 2025 and then becoming more mature by 2035, focusing on free trade, investment and transport, and the flow of talent, capital and data.

In other words, it appears that Hainan could be an alternative to Hong Kong way beyond becoming a new shopping hub.

In the future, Hainan could also host duty-free companies from outside the province, including the China National Service Corporation, Wangfujing Group and even foreigners such as DFS.

One major caveat is that the boom could be unsustainable as outbound travel has all but collapsed.

While many luxury brands, especially cosmetics, watches and jewelry brands, [have made a home on the island](#), there are notable exceptions such as Hermès, Louis Vuitton and Chanel, and the assortment is seen as more limited than in Hong Kong.

Hainan's prices are comparable to duty-free shops in Shanghai and Beijing, raising the question of why bother.

With higher traffic comes logistics struggles, with long queues outside stores and goods only delivered to the airport shortly before flight departures, inconveniencing consumers.

If the operators, both new and existing, can get this right, Hainan could be a hub of luxury duty-free shopping for years to come, but it is unlikely to be a smooth ride.

In the meantime, whether you are going there to shop over the weekend or not, we wish you a fantastic Lunar New Year.

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