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Why Hainan is China's newest luxury Mecca

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Hainan's success as a luxury hotspot is not only due to changes in duty-free shopping quotas. Image courtesy of China Duty Free Group

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Hainan was always a famous domestic hotspot that attracted local tourists with its heavenly warm weather and modern resorts. But China's post-COVID-19 travel restrictions and changes in duty-free shopping quotas only added to Hainan's appeal.

In fact, since 2020, when the Ministry of Finance (MOF) announced that the province would include new products on its duty-free list and raise its tax-free shopping quota from 30,000 yuan to 100,000 yuan per person per year, Hainan has gained even more momentum.

These significant changes have boosted luxury sales and accelerated the transformation of Hainan from an island province to a luxury mecca.

"Today, the tropical resort destination known as China's Hawaii has become a rare bright spot in the global luxury market, which has been hit hard by the coronavirus pandemic," said the *Financial Times*.

And, according to the chairman/CEO of Capri Holdings, John D Idol, "Hainan Island is on fire."

It would be overly simplistic to credit Hainan's success only to changes in duty-free shopping quotas, considering that there are additional circumstances that benefited the island. Therefore, we should take a look at some of those game-changers.

The repatriation of Chinese luxury goods spending

In 2019, Chinese consumers generated 35 percent of global luxury spending. Yet only 11 percent of the luxury purchases were made in Mainland China, according to research by Bain & Company and Fondazione Altagamma.

Fast-forward to our current reality when travel bans and restrictions have haltered tourism, and the situation looks quite different. By 2025, Chinese consumers will make 26 to 28 percent of their purchases at home, based on that research.

And as the government has escalated its efforts to spur domestic consumption by promoting 24 targeted measures, including the construction of new infrastructures and the rollout of a state-backed digital currency, we foresee a similar positive consumption pattern in the future.

As such, the relaxation of travel restrictions in 2021 and 2022 should not bring substantial changes.

The rise of nationalism and the appearance of the patriotic consumer

Consumer boycotts against Western brands triggered by perceived wrongdoings or negative comments have become the norm in China.

The latest backlash is against global corporations that do not stand with China on the Xinjiang cotton ban. Nike, H&M, and Adidas are just a few of the brands that came under fire over their Xinjiang cotton statements.

On the flip side, grassroots nationalism has boosted sales for domestic brands primarily available inside China.

Unmistakably, the rise of nationalism has boosted Hainan's profile now that consumers are choosing to buy national brands and shop locally.

The end of Hong Kong as a luxury heaven

After two years of chaos via pro-democracy protests and the COVID-19 crisis Hong Kong has lost its crown as the ultimate luxury heaven. Its anti-China movement has scared away wealthy mainland tourists, and locals have been considering a tough "stay or go" choice.

"More than 1 percent of residents have left since Beijing imposed a broad national security law last summer," said *The New York Times*. "Tens of billions of dollars have flowed out of local Hong Kong bank accounts and into jurisdictions like Singapore."

For the past two years, Hong Kong's power has substantially eroded.

Meanwhile, Hainan has surpassed expectations, attracting the affluent mainland class who used to vacation in the former British colony. This trend is unlikely to be reversed soon, especially with Beijing envisioning a "new Hong Kong" expected to become "China's freest place to trade."

Western luxury brands have invested massively in their physical footprints in Hainan

The Business of Fashion reports that Swiss duty-free giant Dufry partnered with state-owned Hainan Development Holdings on a store in Haikou's Mova Mall.

Additionally, the DFS Group collaborated with Shenzhen Duty Free Group on a shopping complex in Haikou Mission Hills.

U.S. retailer Ralph Lauren also plans to open an additional store on the island, and Tapestry Inc. will expand Coach's physical footprint by inaugurating two more duty-free shops.

"The amount of development there is outstanding," said Todd Kahn, CEO of Coach, in an interview. "So you'll see a lot more stores across all of our brands in the upcoming year."

The opening of new stores and major investments in bricks-and-mortar experiences signal that Western brands are very serious about Hainan.

Considering the high costs of the retail leasing market and moving inventory, it is difficult to believe that luxury players have not considered their long-term health vis-a-vis this strategy.

For obvious reasons, every luxury corporation that wants to reach its long-term brand objectives and achieve sustainable growth should have a presence in Hainan, which China celebrates as its new luxury hotspot.

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