

GOVERNMENT

## Can luxury leverage China's new direction?

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*China's crackdown on a wide range of businesses shows Beijing is changing its strategy. But can luxury brands take advantage of this shift? Image credit: Shutterstock*

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China's **crackdown on a wide range of businesses** shows Beijing is changing its strategy, as it no longer intends to prioritize international cooperation, a liberalization of the economy and domestic development at all costs.

As the country became more powerful politically and economically, Beijing pushed China's corporatist model and its communist values to the forefront. And recent developments highlight how, as China adopts a new outlook to global dominance, not even prominent online behemoths such as **Alibaba**, Meituan, Didi Global and Tencent are safe anymore. *The Economist* sums it up, saying: "Beijing's approach to business grows increasingly muscular."

Beijing recently has engaged with global and domestic brands differently. The CCP now promotes a model where the government has full control over state-owned industrial enterprises and private businesses. As such, foreign companies with strong China aspirations will need to embrace and respect Beijing's assertive new nature. That means global businesses should adjust their values, behaviors, and leadership models so they can abide by the rules imposed by Beijing.

Additionally, the tensions between the United States and China have caught foreign businesses in the crossfire. When Chinese consumers turned against "Brand America," they started **boycotting American products** and expressed their displeasures on social media. And the negative publicity has affected foreign brand equity and growth opportunities.

Nowadays, foreign brands need to navigate an increasingly hostile environment in China. Therefore, global businesses need to find smart routes for shaping consumer behaviors and shift attitudes, with **co-branding strategies** becoming one way for brands to create revenue growth and change brand perception.

The economic fallout from the pandemic has also transformed consumer spending, with two major patterns emerging.

On the one hand, low-income households and middle-income, price-sensitive consumers have become even more focused on keeping costs low. Accordingly, this segment prioritizes brands that keep prices down and offer convenience. For obvious reasons, they think in terms of cost, not quality, prestige or craftsmanship.

But on the other hand, upper-middle-class and wealthy consumers have become even more focused on luxury consumption post-pandemic. This segment emphasizes performance, craftsmanship, and symbolic capital. Affluent consumers desire authentic **luxury icons**, not trendy premium brands known for their discounting strategies and mass appeal.

As a general rule, China does not have a middle-class consumer market such as those in the West. Even shoppers who belong to the middle class do not gravitate towards mid-tier brands. Consequently, foreign brands must either position themselves in the luxury or bulk sales categories to avoid losing market share.

In the past decade, the adoption of a digital-driven retail model has revolutionized major cities. But smart retailers know that the model needs to be modified and reconstructed to respond to the needs of smaller urban settlements and not just Tier-1 cities.

The government has already announced significant investments in the digitalization of the Chinese infrastructure, as per the Broad-Group. Meanwhile, China is forecasted to spend more than \$3.78 trillion (27.1 trillion RMB) in new infrastructure construction and related investments, according to Haitong Securities.

Substantial investments in 5G networks, data centers and cloud infrastructure expansion will push the digital economy into a new future. And this will help ecommerce players permanently reshape the landscape through innovative business models. Therefore, the digital transformation of towns and **lower-tier cities is crucial** for the survival of foreign brands in China.

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