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5 things that could keep China from becoming the largest global luxury market

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China is expected to become the world's largest luxury market by 2025. But these five predicaments could block its path. Image credit: Shutterstock

By [Adina-Laura Achim](#)

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Based on estimates from [various consultancy firms](#) and news channels, many expect China to become the world's largest luxury market by 2025.

[Global Times](#) reports that, in 2020, China's luxury sales increased by 48 percent to about \$54 billion (350 billion yuan). And [Statista](#) highlights that revenue in China's luxury goods market amounted to \$43.5 billion in 2021.

Moreover, this market is expected to grow by 6.63 percent annually (CAGR 2021-2025).

While these figures are impressive, the United States remains the global luxury leader, with revenues in the luxury goods market that amounted to **\$71.3 billion in 2021**. That has left many wondering: Could anything prevent China from surpassing the U.S. to become the world's largest luxury market? Here are five current obstacles that could slow down China on its path toward luxury dominance.

Government crackdown

Luxury brands surely remember President Xi Jinping's 2012 anti-corruption campaign that forced officials to embrace a more frugal lifestyle while sending shock waves across the international luxury industry.

Over the following years, premium and luxury brands decried the sharp sales declines they saw in luxuries such as [wristwatches](#), [suits](#) and expensive cognacs.

But now, a new government crackdown following Mr. Xi's "[common prosperity](#)" policy could have a similar effect.

Luxury brands should prepare for upcoming tax reform, additional local levies and direct taxes on luxury goods.

Analysts at the China International Capital Corp say luxury goods "[that use high energy or generate significant pollution](#)" will have to pay higher taxes.

Rise of domestic brands

In recent years, younger consumers have turned their attention toward domestic brands.

A report jointly released by [Baidu and an institute under people.cn](#) highlights how Chinese consumer interest in domestic goods increased by 528 percent over a decade ago.

The [rise of the "china-chic" trend](#) and the embrace of traditional elements such as *hanfu* prove that consumers are rediscovering home-grown brands.

Against this backdrop, grassroots nationalism and a new patriotic sentiment have pushed local consumers toward domestic brands.

Economic slowdown and property crisis

A return to COVID-19 lockdowns and the spread of the Omicron variant has further exacerbated economic issues. Even before the Omicron threat, economic data from China showed signs of trouble ahead.

Last October, the National Bureau of Statistics [announced](#) that China's gross domestic product for the third quarter only grew by 4.9 percent over a year ago.

Additionally, the country is struggling to overcome ongoing challenges, such as shipping disruptions, supply chain problems, [a property crisis](#) and power shortages and blackouts that have shut down factories across the country and halted production.

Changes in tastes and buying behavior

The COVID-19 pandemic has altered global consumers' buying habits, beliefs and consumption patterns. But even before then, a change was already underway in China, with maturing consumers embracing conscious consumerism.

At the core of this seismic shift was the emergence of a different type of shopper. This new-age consumer has increased interest in sustainability and prioritizes personal well being.

Naturally, this approach has led to holistic retail experiences but has also launched discussions about ownership and sustainability.

Although most luxury retailers were slow to jump on the [resale trend](#), Chinese consumers have embraced "re-commerce" and circular economy practices.

In the future, luxury brands will surely need to partner with reselling sites and promote their products on peer-to-peer secondhand Web pages if they want to maintain market dominance.

Rise of new luxury status symbols

China's growing middle class is increasingly looking to trade up. That means new luxury categories have gained momentum.

For instance, middle-market consumers no longer see a Herms Himalaya Birkin bag as the ultimate status symbol.

Now, they prefer to invest in experiences such as education, healthcare, refined hobbies painting, and piano or violin lessons or elite sports, including lawn tennis, croquet, polo and squash.

Luxury brands can no longer ignore the rise of these new status symbols, as they could trigger revenue losses and jeopardize their market positions.

Undeniably, slower sales and revenue growth from these and other trends and incidents could stop China from becoming the world's largest luxury market in the future.

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