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Is Guangzhou the future of luxury in China's Bay Area?

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Thanks to smart economic policies and an advantageous location, Guangzhou has become the top shopping choice for most Chinese customers northwest of Hong Kong. Image credit: Shutterstock

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If you are familiar with the recent development of the Greater Bay Area in China, you know that the Guangdong-Hong Kong-Macao economic rim is becoming a luxury superstar.

While luxury shopping destinations across Southeast Asia mainly Hong Kong, Macao and Singapore have been severely affected by the pandemic, Guangzhou, the capital city of Guangdong province, has again become the top choice for most Chinese customers in this area.

Moreover, Guangzhou is a hub that interconnects both the upstream and downstream sectors of the fashion industry. And, as it has long been home to China's garment and lifestyle industries, many luxury brands may have underestimated the city's potential for luxury consumption.

Why?

In this budding post-COVID period, more Chinese have saved money, and more residents in the Greater Bay Area have a relatively higher income to spend on luxury goods.

Per data from the Chinese National Bureau of Statistics, the average annual income of Chinese people increased almost threefold from \$5,800 (37,000 yuan) in 2010 to around \$15,000 (100,000 yuan) in 2020. And, as the gateway of the bay area, Guangzhou's average disposable income per capita has reached an impressive \$10,800 (69,000) yuan in 2021.

Meanwhile, there has been a swing back to "shopping locally" in Guangzhou, with international travel still restricted due to the ongoing pandemic. During that time, Guangzhou's appetite for luxury goods has rebounded remarkably well.

In April 2020, Herms gained \$2.7 million in sales at the reopening of its store at Taikoo Hui, one of the premium luxury malls in Guangzhou, shocking the Chinese luxury market.

Today, in Taikoo Hui, many luxury brands witness long queues even on weekdays, which was hardly ever seen in Hong Kong even when it was the number one shopping destination pre-COVID-19.

The Guangzhou atmosphere is favorable, too, as it has seen a local fashion industry boom in recent years.

For example, the local brand **CANUDILO**, featuring Chinese culture-based men's collections, accurately targets its local customers, creating high-end products that lead the market in Guangzhou and elsewhere in China. It also collaborates with famous local designers to create avant-garde pieces that have attracted loyal customers while bringing in a new level of aesthetics.

Such strong momentum in the city pushes the upstream and downstream of fashion businesses to grow and, in turn, heats up the frenzy of luxury purchasing.

How much potential does Guangzhou have?

Digitization of luxury spending has also made shopping more accessible here.

Luxury brands partnered with multiple Chinese ecommerce platforms in 2021, with more than 150 global luxury brands launching flagship stores on Chinese ecommerce platforms. And Guangzhou has also started to take advantage of its cross-border ecommerce industry.

By collaborating with Alibaba the mother company of luxury ecommerce platform Tmall.com Guangzhou is building digital lifestyle hubs to help luxury brands release the market's potential through livestreams, crossover branding and social media campaigns.

But "Guangzhou's rising luxury consumption is not only a result of revenge spending after the COVID-19 pandemic," said Jiang Runfou, who has worked in luxury businesses in Guangzhou for 20 years. "The structure of such spending permanently changed after the pandemic, as Guangzhou has become the center in the Bay Area because of its local shopping culture, mature online/offline sales system, quality purchasers and policy support. But more international level campaigns and a focus on the Gen Z market are exactly what the city needs if it hopes to win the competition with Shanghai and Beijing."

New consumers keep flooding into the city. And given that millennials and Gen Zers currently purchase around 15 percent of all luxury goods in China, the luxury market is actually getting younger.

Backed by its developed economy, cultural diversity, and sci-tech innovation power, Guangzhou keeps attracting more young Chinese people. It topped the rank of livable Chinese cities in 2021, according to the blue paper of Guangzhou social development report, and was also voted the second most attractive city for new talents in 2020, per the data from Baidu.com.

Guangzhou has seen a growing influx of international luxury brands and independent labels due to its timely economic policies.

The shift of the purchasing power from **Hong Kong** to Guangzhou could spur the city to explore more diverse business formats, from exhibitions and department stores to fashion shows and NPC campaigns. But Guangzhou will have to do more to prove its value in the market to compete with Shanghai, Tokyo and Singapore, while it continues to rely on its strong local culture.

Local policymakers should take further steps to enlarge the scope of the luxury market and the sustainable consumption.

Meanwhile, the expansion of online/offline retailing will accelerate the **repatriation of spending**, steering sales toward luxury brands. Its luxury market, covering fashion, jewelry, hospitality, property and resort, will all benefit from the moves, as those brands will be attracted by the scale economy.

"The luxury market in Guangzhou and in China, as a whole, is vibrant," says Zhang Yanzheng, economist with China Center for International Economic Exchanges. "Everyone is talking about the new trends and waiting for new opportunities, so the potential of luxury consumption is very strong."

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