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GOVERNMENT

Chinese President Xi's pledge at Congress means getting rich quick is out. Should luxury worry?

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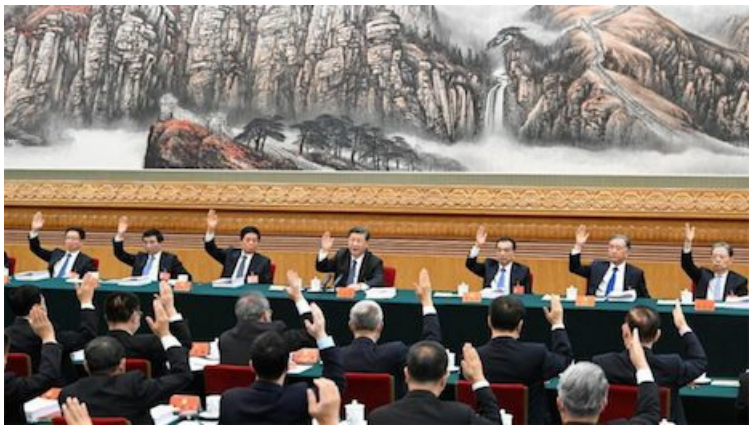

The 20th National Congress explicitly calls for more corrective measures to govern income distribution and wealth accumulation for the first time. Should the luxury sector be alarmed? Image credit: Xinhua

By Zihao Liu

Op-eds have emerged in Chinese newspapers explaining in detail the implications of Chinese President Xi Jinping's pledge at the 20th National Congress to achieve common prosperity.

The focus is on the key phrase, "regulating the order of income distribution and the mechanism of wealth accumulation," or , which has appeared for the first time in government documents.

One op-ed in state media outlet The Beijing News cited Su Hainan, a researcher at the China Association for Labor Studies, who stated that "a select few have gotten rich extremely fast [] through property income such as investments, stocks and bonds especially in industries like finance and Internet."

Mr. Su advocates for the use of "taxation, laws and other related means to adjust the phenomenon of accumulating wealth too quickly."

On the major economic news platform Yicai, another op-ed called for elevating labor's role () in income distribution, arguing that it will create a fairer job market and boost domestic consumption.

Revising income tax is an effective tool to curb excessive income, the op-ed argued, although the goal should be not to "kill the rich but to aid the poor" (), and so cautions against blindly raising the tax rate, which may disincentivize production.

The piece also states that voluntary redistribution from the rich, known as "the third distribution" () following that of income and government, should also be encouraged.

The Jing Take: The luxury industry should anticipate more forceful actions from the Chinese government to ameliorate the mainland's wealth disparity in the wake of the congress.

One measure which might have the most direct impact on the sector is the introduction of a luxury tax, an idea that has been proposed by the country's lawmakers in the past.

Such a tax would target what the Chinese government considers to be highly expensive and "unnecessary" consumer products to curb excess materialism.

There is no definitive answer for when such legislation would be introduced, but its possibility has certainly increased after the 20th National Congress explicitly mentioned "income distribution."

Another major impact on luxury will be the government's more visible disapproval of speculative purchases since they fall into the category of "getting rich too quickly."

In recent years, China has witnessed resale frenzies surrounding sneakers, art toys, digital collectibles and even luxury packaging.

It is likely that the central government will unveil formal legislation that strictly regulates the consumer goods resale market in an attempt to root out wild price fluctuations. This means that, when building hype for special collections, companies should avoid using language and actions that can be interpreted as encouraging purchases for potential resale values.

In addition, luxury houses should prepare to have their pricing rationale more closely scrutinized.

Drawing attention to the fact that luxury products convey exclusivity will reflect poorly on a brand, especially amid the broader push to achieve Mr. Xi's common prosperity policy.

Instead, the emphasis should be on the labor aspect of a product, such as its exquisite craftsmanship and ingenious design, as well as the spiritual value that it can offer to Chinese consumers.

Local corporate social responsibility and philanthropic initiatives are also now a must for luxury houses. They not only showcase labels' willingness to participate in the "third distribution," but also their commitment to promoting China's overall social development which benefits the underprivileged especially.

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