Hong Kong, and in particular the W Hotel on the Kowloon side, tends to be a regular stop for me during my frequent travels to Asia. Given its trendy vibe, the W attracts a lot of younger guests, many of whom come from mainland China. While staying at the hotel, I often see the same neon-green Lamborghini parked outside the hotel lobby. I even had an exchange with its owner once in the elevator. A young man—who was also clad in neon colors and donning the most high-end of global brands—he reminded me of something known as "fu er dai" or "rich second generation," a term coined for the privileged offspring of wealthy Chinese families.

Over the past decade, such conspicuous consumption has been seen across China and Hong Kong, emerging as a natural by-product of an economy experiencing rapidly rising levels of affluence. Many wealthy individuals today are considered China’s “new money.” Grappling with their newfound wealth, they have tended to spend money freely and in ways in which they can flaunt their new status. Across China, there have been stories of unbelievable extravagance, from diamond-studded smartphone cases to gold-plated sport cars and replicas of homes that resemble the White House.

However, the days of excessive spending in China may already have waned. According to a report by global management consulting firm Bain & Company, luxury spending in China saw its first decline in 2014 when growth slipped 1%. Just last month, French luxury brand Gucci began discounting its products to customers in China, following similar moves by other brand-name firms that have lowered prices. Factors contributing to the weakness in luxury spending include the softer macroeconomic economy as well as an anti-corruption campaign introduced by President Xi Jinping. This popular political campaign to stamp out corruption and extravagance within the government is likely to continue for the foreseeable future, and many Chinese are now getting used to “the new normal”—a lifestyle that is still improved but somewhat less lavish.

Despite this, China is currently the world’s largest luxury market, and the country is still purported to be the most important growth driver for the global luxury goods market—but this time owing to different underlying trends. For those already rich in China, many are experiencing “logo fatigue,” and are gravitating toward more understated luxury goods. The wealthy are also trading up to even higher-end brands. Another driving force is China’s up-and-coming middle class, many of whom have not yet purchased their first luxury item. Other growth drivers include the expectation that income levels will continue to rise for the foreseeable future, and the increasing participation of women in the labor force. China will reportedly comprise 37% of the world’s luxury goods market in 2015, up from its 14% share seven years ago.

Interestingly, as much as half of China’s luxury brand purchases are made abroad where taxes and prices may both be lower. It has been China’s goal to continue to reform consumption tax so as to bring more of that spending back home. More recently, the government announced measures to cut import tax tariffs on cosmetics and apparel, a step in the right direction. In the meantime, luxury brands will continue to lead to the opening of more stores in China, and provide customized services to their high-end clients in hopes of capturing this long-term growth opportunity.
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Matthews International Capital Management, LLC
Four Embarcadero Center, Suite 550
San Francisco, CA 94111
USA