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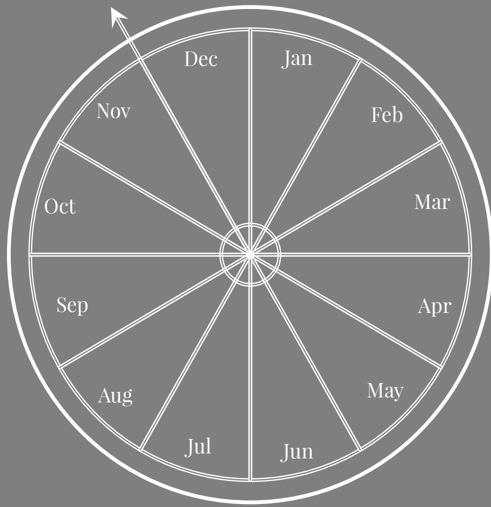

Volume 38: Festive Edition 2022

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WHITHER CHINA?

"The Chinese" said US President Richard Nixon "use two brush strokes to write the word crisis. One brush stroke stands for danger: the other for opportunity. In a crisis, be aware of the danger - but recognize the opportunity."

What would Nixon make of a post-Mau, economically rampant, luxury-hungry China? The East Asian giant has been the biggest global growth story of the past two decades. China's GDP now is around 15 times the size it was at the turn of the Millennium. Its GNI per capita sat at under US$1000 22 years ago, and now it is over $12,000. Chinese consumers were irrelevant to western luxury brands two decades ago; now they are their global MVPs. Nixon, who wrote in 1967 that the rest of the world *"simply cannot afford to leave China forever outside the family of nations"* would surely finally have satisfaction.

But the COVID-19 virus, which was first discovered spreading in China's Hubei province capital, Wuhan, has proved far more definitive of the remaining differences between China and the 'family of nations' than anything else in recent history. China's response, and its plea to the rest of the world, was to impose lockdowns on populations, to ensure low virus transmission, arguing that this will reduce pressure on hospitals and lower the number of virus fatalities. Early data on lockdowns suggested they did work, and even in free, democratic countries a wartime spirit and a sense of duty compelled most people to accept and follow the rules. The modellers and the medical establishments across the world supported China's position. However, very little preliminary analysis was conducted on the impact of these legal restrictions, particularly on other healthcare outcomes, the mental wellbeing of citizens and the economic shock of shutting down large parts of national industry for an indefinite period. However, these concerns (particularly the latter) paled into insignificance as an argument against lockdowns when faced with emotive predictions of bodies in public parks and hospitals so crowded they would have to treat patients in corridors and car parks.

Now that, aside from China, the dust has settled, as lockdowns have lifted across the world, these concerns are proving sadly justified. Sweden, which famously did not impose lockdowns but encouraged social distancing and for citizens to behave responsibly, ended up with one of the lowest excess death rates of all developed countries.

However, in China, the pandemic goes on – and so do the lockdowns. So much so that in recent days, Chinese citizens have engaged in mass protests in its biggest cities against the continuation of strict Covid measures but also against the CCP and its leadership – a rare and potentially dangerous activity that highlights the desperation of those taking part. Many Chinese are upset – and some are leaving China.

Earlier this year, Henley & Partners, specialists in immigration data, reported that as many as 10,000 Chinese UHNW & HNW individuals are soon looking to permanently pull themselves and a

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collective US$48 billion out of China, with Singapore a key target market. Hong Kong, now seen to be firmly under Beijing control, is far less attractive than it used to be. After a mass exodus of expats, the city's once supreme luxury real estate market is reeling. Agencies in the sector have said sales and rental prices are falling, the market is seeing fewer transactions and the number of home viewings has slowed. Savills expects a correction of 10% to luxury home values, and a similar decline next year. Again, Singapore is set to benefit – this year, property prices have increased in the city state by 8%.

The direction China has taken – zero-COVID zealotism and commitments to "common prosperity" – have clearly spooked its wealthy. By the end of last year, during the pandemic, the number of family offices in Singapore had nearly doubled to 700 and recently, there has been a further rise in interest. Enquiries from China for a family office set-up in Singapore rose by around 25% to 50% immediately before and after the recent Party Congress. Prominent Chinese entrepreneurs who have already established themselves in Singapore include Zhang Yiming, founder of TikTok's ByteDance Ltd.; crypto billionaire Jihan Wu and Cindy Mi who founded VIPKid, an education tech company that was succeeding until Beijing cracked down on online tutoring. In Singapore, Chinese buyers purchased 932 private units in the first eight months of 2022, almost twice the number bought by Malaysians.

All of this has not gone unnoticed by luxury brands, who have turned their attention back to the US. "The US" says LVMH's North America leadership "is a priority market for investment for all of our brands, and that wasn't the case a few years ago." This is not to say that China is no longer attractive to luxury brands looking to invest: after all, domestic luxury sales in China have proved resilient. But now there is a caution to placing all their eggs in the bamboo basket of China. The US – a stalwart luxury consumer market – is seen as a sensible hedge in a turbulent macro environment.

After all, the US is not only already home to the largest population of UHNW and HNW individuals, it also remains one of the most dynamic post-pandemic wealth-creation economies. China is by no means a slouch, but the permanent departure of a mass of its wealthy citizens portrays an elite with insufficient belief in its systems and a government that may struggle to sell its vision to its own people. Very wealthy people leaving the country of their bosom is nothing new, but when it is so concentrated and at a time of increasing political tension and curtailment of freedoms, the link is unavoidable.

The Hong Kong downturn, the setbacks in luxury spending, the political unrest, may all be forgotten with a post-pandemic bounce, as happened in 2020 after the country had 'defeated' the virus. But the differences in approach to citizens' liberty between China and most other major economies remain stark. The persistence with zero-COVID and restrictions directly contrasts that of other copycat nations, such as New Zealand, who finally admitted such a strategy was no longer sustainable. It is increasingly hard to deny, though many still do, that wealthy Chinese citizens must covet others' freedoms.

The broader issue in all of this concerns the long-term future of China. Many analysts are pointing out that the middle class of the country – below the super-wealthy tier who are leaving in their thousands – are shunning unnecessary luxury goods due to worries over the country's economic situation, their jobs and the lost luster of 'things' in a blighted social environment where intangibles (such as time with friends and loved ones) are made more precious by successive draconian lockdowns.

Nixon's prophetic point about China's place in the 'family of nations' has largely been vindicated. China has played an enormous role in being both consumer and producer over the last two or three decades; through trade it had joined the family, though differences still endured. Though its status as an economic powerhouse may remain undimmed, its relentless pursuit of prestige is bleeding wealth.

Sector updates

Image: Tom Ford

In our August diary entry, we reported that Estée Lauder was in talks to buy the **Tom Ford** brand, then estimated at $3bn. Earlier this month, the deal was agreed, valued at $2.8bn. Estée Lauder Companies (ELC) will pay approximately $2.3 billion now, net of a $250 million payment to ELC at closing from Tom Ford eyewear licensee Marcolin. $300 million in deferred payments will be due from July 2025. Barton noted that Ford, who founded the firm, will remain as a "creative advisor" until the end of next year, a rapid exit for a brand that bears your name. Ford's brand is a masterclass showcase in how a new fashion talent can build a lifestyle marque without the luxury crutches of history and heritage. Ford himself was an icon of cool. Debonair and elegant, he wore his own creations, appeared in his own advertising campaigns and became a cultural icon after his directorial film debut of 'A Single Man.' He crafted a 1970s-inspired masculine look in an age of ubiquitous skinny lapels and androgyny. Now 61, it is likely his contributions to the luxury fashion world are at an end.

Balenciaga has been in the limelight for all the wrong reasons any number of times for their controversial, often silly products. Many of those could be seen as clever PR moves to keep it top of mind, to keep consumers talking: as they say, there's no such thing as bad publicity. However, their recent shenanigans involving the use of children in photoshoots clutching, amongst other things, teddy bears in bondage gear, have managed to unite the world in anger against them. The brand found itself scrabbling for excuses after another image showed an extract from a child pornography Supreme Court case. It's difficult for Barton to believe that the talented couturier Cristobal Balenciaga, who made clothing for Grace Kelly, Audrey Hepburn and Jackie Kennedy, would be anything other than appalled by his company's foray into the sexualisation of children. Kim Kardashian, a celebrity ambassador for the brand said: "As a mother of four, I have been shaken by the disturbing images," adding that she had spent the last few days talking with the Balenciaga team "to understand for myself how this could have happened."

Image: Balenciaga

Image: Richemont

"Jewellery sales boom" is not something commonly associated with global economic downturns, but then we live in strange and somewhat illogical times. **Richemont** shocked markets this month with far better than expected results, as jewellery sales in the group, particularly from their top brand Cartier, rose by 24% in the six months to the end of September. Jewellery, which is far more reliant on offline retail than fashion and accessories, had benefited from the relaxation of some COVID restrictions in Asia-Pacific and other parts of the world – although analysts were quick to point out that China was yet to contribute to this phenomenon. Richemont was typically bearish about next year, citing interest rates and cost of living pressures as serious headwinds for their high-end jewellery brands: a strange position to take, in Barton's view, as HNW discretionary spend is rarely affected by inflation. One of the mistakes made by analysts is seeing every recession as alike in its consumer impact. Too many may be comparing the 2008 financial crisis – which did hit HNWs harder – with the current post-COVID inflationary one.