

## China's taste for luxury comes with risk

By Adrian Michaels in Venice

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China's attraction as a fast-growing market for luxury goods needs to be counterbalanced by its lack of suitable distribution channels and various economic and political threats, say industry experts at a luxury goods conference on Monday.

Stephen Roach, chief economist at Morgan Stanley, said one of the largest threats to the luxury goods sector could be the growing bipartisan consensus in Washington to impose trade sanctions on China. That could prompt a steep decline in the dollar and hurt fashion companies, many of which produce their goods in the eurozone.

There was a "gathering backlash against globalisation" especially in the US, Mr Roach told delegates at the FT Business of Luxury Summit in Venice.

He added: "The battle is on to punish the trading partner [China] which is...hurting the beleaguered American worker."

Those in attendance were also reminded, however, that China had become vitally important for their sector. China is now the third largest consumer of luxury goods globally, with annual sales of more than \$2bn. That total, said Sian Davies of Henley Centre HeadlightVision, a consultancy, was projected to grow 20 per cent a year to 2008 and 10 per cent a year to 2015.

Mark Lee, the chief executive of [Gucci](#), said China was the fastest growing market for his company, followed by internet sales. Ms Davies highlighted the growth of conspicuous consumption in China. She said that Bentley had in Beijing sold more Mulliner 128s, which cost \$1.2m each, than in any other city.

There was concern voiced at the conference, however, at signs that China's leaders were attempting to clamp down on ostentatious consumption of luxury and damp what was widely seen as an equity bubble.

The Asian taste for luxury is fuelling a scramble for growth in China and other countries. India is seen as a bright prospect. A number of Italian companies are preparing to shed their private heritage in favour of launching on the stock market and raising money for expansion in Asia. But views of emerging market prospects are tempered.

Several companies have mentioned the difficulties of finding suitable retail areas as high-end customers require a luxurious atmosphere in which to shop.

Bonnie Brooks, president of Lane Crawford Joyce, the luxury brand group, said: "There is a lack of good solid retail sites [in China]."

JW Kaempfer, chairman of development group McArthurGlen UK, said: "You really can't do street retail in India."

But, Ms Brooks said: "All of that is overshadowed by the excitement of the growth of the Chinese luxury consumer."