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**A**s the Chinese economy continues to flourish, buoyed by 10% annual gross domestic product (GDP) growth, rising incomes, and healthy (if volatile) equity markets, newly-minted millionaires have emerged with a voracious appetite for Gucci shoes, Tiffany jewelry, Armani suits, Prada handbags, Bentley limousines and many other luxury items that broadcast one's wealth and status.

According to a report from Goldman Sachs, China was the world's third-largest consumer of luxury goods in 2006, accounting for 12% of global sales, up from 1% just five years prior. By 2015, China could represent 29% of worldwide luxury product sales, making it the world's top buyer of luxury goods.

As an example of China's craving for luxury, consider one of the world's most iconic luxury products, the Swiss watch. According to the Federation of the Swiss Watch Industry, sales to Chinese buyers leapt by 84.2% in just the past two years, while overall sales ticked up a more modest 26.1%.

Chris Davis, managing director of brand strategy at GfK NOP, a London-based market research organization, explains that affluent Chinese consumers are enamored with foreign luxury brand products and will pay their attendant exorbitant prices. "Despite the Communist culture one associates with China, there is no country in the world that better epitomizes 'conspicuous consumption' than China," he says.

"The luxury brand phenomenon can actually be traced

back to the pre-Mao era of the 20s and 30s — where places like Shanghai were a Mecca of style, fashion, and luxury consumption. This spirit has been rekindled with the government's tacit acceptance of market capitalism, rising disposable incomes, and a

cultural shift toward individualism and indulgence."

"We are seeing a significant number of new points-of-sale opening up in China for luxury goods," says Joshua Byrne, managing director and co-chief investment officer of the international core team at Putnam Management. "As Chinese people accumulate wealth, luxury

goods become aspirational items. And a lot of wealth creation is going on in China."

Global luxury companies appear more than ready to exploit the rising incomes of

China's elite. Many of the world's most prestigious luxury goods companies have established a significant foothold on the Chinese mainland. For instance, French luxury goods maker Hermes International seeks to treble the number of its stores in China over the next five years; Saks [SKS 21 ★★★★★]

plans to open its first store in China in 2008; Richemont, parent company of French watch and jewelry brand Cartier, plans to open 25 new shops in mainland China by March 2008; Italian clothier Gianni Versace plans to open nine stores in China next year; and LVMH Moët Hennessy Louis Vuitton SA, the

A NEW CLASS OF AFFLUENT CONSUMERS IN CHINA HAS CREATED GROWING DEMAND FOR FOREIGN LUXURY PRODUCTS.



