Tigers, Flies, and Longines: The Chinese Corruption Crackdown and its Effect on Conspicuous Consumption

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TIGERS, FLIES, AND LONGINES: THE CHINESE CORRUPTION CRACKDOWN AND ITS EFFECT ON CONSPICUOUS CONSUMPTION

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By Kayla M. Smith

A thesis presented in partial fulfillment of the requirements for completion
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Abstract: Through the analysis of Elle China magazine articles and annual financial reports, the researcher sought to find if the 2012 Xi Jinping campaign against corruption, extravagance and graft had an effect on luxury sales. The researcher has found that the campaign has little to no effect on the luxury consumption preferences of the upper and middle class in China, only effecting officials and luxury purchases made for gifting. To offset loses from the crackdown on gifting, luxury brands have begun selling more affordable high-end liquors and watches.
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Introduction

In 2016, China surpassed the United States to be the country with the largest number of billionaires in the world.¹ This growth in the number of billionaires in Chinese society points to a generalized growth in wealth accumulation in China, which can be seen in the consumption of luxury goods. From handbag to cars to watches, China consumes luxury goods in bulk. Over 170 million people in China can afford to purchase luxury goods, and the percentage of Chinese people with the ability to purchase luxury goods grows by 12 percent a year.²

While living in China last spring, I came upon an interesting phenomenon concerning Chinese people and the consumption of luxury goods. One of my Chinese teachers would tell us of how her friends would line up for hours just to get a couple thousand (CNY 1000=US$154.27) off a Louis Vuitton bag that was selling for over sixteen thousand RMB (US$2468.74). The longer I stayed in China, the more I became intrigued by the prevalence of luxury goods in the country. Luxury handbags, an automatic distinguisher of elevated status, could not only be found in a communist country, but seemed to be found everywhere. Flagship stores for all the major luxury brands could be found in every city, and, in major cities like Beijing or Shanghai, you can find many stores of the same brand.

The idea of luxury consumption in China fascinated me well past my return to the United States, but the nature of my question took an interesting twist when I

once again had unlimited access to knowledge. Despite all that I had seen in China in regards to mass luxury consumption, China was currently in an anti-corruption campaign that, in part, targeted luxury consumption. Since Xi Jinping took over leadership of the CCP in late 2012, 414,000 officials have been 'disciplined' by the party for corruption, and the number continues to grow as the campaign digs deeper into the vast corruption in Chinese society and politics.\(^3\) Numerous newspaper headline touted that this luxury brand or that luxury brand had experience large decreases in sale.

Upon learning this, I began to wonder why luxury consumption seemed to be so important to Chinese people, and whether the average person was really affected by the crackdown on extravagance as the news proposed. Why were Chinese people still willing to buy large amounts of luxury goods, despite the wide-scale and extensive government crackdown on its consumption?

The answer to the second inquiry was uncovered early in my research. Chinese people engage in conspicuous consumption out of a type of necessity.\(^4\) Social classes are still moderately fluid in China, compared to the West where social classes are entrenched over hundred of years of wealth accumulation and loss. As a

\(^3\) Barbara Demick, “China trying to pull back on gift-giving,” *Los Angeles Times*, October 6, 2013.

\(^4\) The study of the practice of conspicuous consumption in the West began with *The Theory of the Leisure Class: An Economic Study of Institutions* (1899), by Thorstein Veblen. Veblen suggested that as economies grow and as more people have extra money to devote to leisure activities, they will strive to increase their social status. Veblen describes this deep-seated motive to increase one’s status and move up the social hierarchy as emulation. Status was not obtained by putting one’s wealth on display but through easily recognizable displays of wealth and status. Conspicuous consumption, a term created by Veblen, is the use of easily recognizable goods purchased to display one’s status. Recognition of someone’s status will help the individual move up the social hierarchy.
result, Chinese consumers, on average, buy luxuries for two primary reasons—gifting and assertion of class status. Chinese metropolitan areas are some of the largest in the world, creating a society that is extremely fluid in terms of social interaction that cross class lines. As a result, some upper class Chinese consumers feel the need to have an easily recognizable indicator to strangers of their status, most commonly a luxury bag, watch, or car. Scholars argue that those in emerging economies are, in some ways, forced to engage in conspicuous consumption because “they feel they must in order to maintain stature in the community.”

Chinese consumers are willing to spend “large proportions of monthly income on apparel items that are routine purchases in other areas of the world.” Chinese consumers do not view this expenditure on luxury as wasteful, but rather a quality investment into their social and business success. The researcher seeks to prove that, despite the crackdown on corruption, Chinese consumers are still willing to purchase luxury goods; the only difference now is that significantly less is invested in luxury goods for gifting as a result of the recent government campaign on corruption, extravagance, and graft.

China is an anomaly in the luxury market in that, before the crackdown, it had a larger percent of male luxury consumers than nations in the west. Primarily

purchasing luxury watches, car, and spirits, Chinese men also became the major industry mover in their consumption of luxury skincare products. With the restrictions on gifting, the industry expected to see decreased returns in sales across the board, but actually only experienced major decreases in the sale of cognac and watches. Over the course of this paper, the researcher seeks to show that the decrease in sales for products primarily consumed by men for gifting was offset by the emergence of new consumers in the growing middle class, as can be seen in luxury brands selling more middle range luxury goods.

Survey data in China is difficult to come by, so, through the use of primary sources that include annual financial reports, and the careful evaluation of fashion advertisements, I sought to interpret the current luxury market in China. Financial reports are taken from 2010 to 2015, but in some cases information on annual sales for 2015 had not been released yet. In the case of luxury fashion, data for China individually was not available, so data is taken from the Asia-Pacific region (excluding Japan), as a whole. The researcher acknowledges this could create an inaccurate representation of Chinese consumption, but argues that, as China is the largest consumer in the region, and heavily engages in luxury purchases abroad, this actually contributes to the accuracy of the research.

Previous research into the government crackdown and luxury consumption has narrowly focused on either the government crackdown or luxury consumption individually, and has not focused on how both are interrelated. In addition, it is difficult to prove a 1 to 1 correlation between the anti-corruption campaign and luxury sales, because macroeconomic trends and other factors may have dampened
the sales figures at around the same time as the campaign began. Through the course of this paper, the researcher seeks to show how the two are interrelated, and that, though the campaign has had a negative effect on gifting and the luxury purchasing habits of officials, overall the market has seen no negative effects from the government crackdown alone.

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8 Nancy Qian and Jaya Wen argue in “The Impact of Xi Jinping’s Anti-Corruption Campaign on Luxury Imports in China (2015)” argue that macroeconomic trends did not affect the sale of luxury goods from 2012 to present by looking at import data. They found that luxury imports were not all similarly experience a decrease in sales, as would be the case if the sales were affected by the larger economic downturn.

9 For further reading on the anti-corruption campaign see: Chen, Gang, ”The “Tigers” in Xi Jinping’s Anti-corruption Campaign,” *East Asian Policy* 6, no. 03 (2014): 30-40.

Chapter 1: Luxury Goods Consumption in China

This chapter examines luxury consumption in China since Deng Xiaoping initiated market reforms in the early 1980s. The luxury market in China has seen exponential growth in the last ten years. In 2000, luxury goods sales in China were almost non-existent.

Before the anti-corruption campaign in 2012, the luxury phenomenon in China appeared to have endless growth for investors. China's growing economy ensured that there would be more consumers with access to capital and the desire to consume luxury goods, and the practice of gifting ensured that luxury goods would maintain an important role in business and political practices. Distinctive characteristics of Chinese luxury consumption, like how the market is male-driven and western-focused, along with the practice of gift-giving, resulted in luxury brands like Louis Vuitton, Gucci, and Hermes establishing hundreds of flagship stores all over China.

This chapter seeks to fully describe the Chinese luxury market in terms of who is consuming luxury goods, what luxury goods are, and how luxury goods are being consumed, to provide information essential to understanding the effect of the anti-corruption campaign on luxury consumption.

Who is consuming luxury goods?

China’s economic success since the late 1970’s has provided a continuously growing market for luxury brands. High income is the most important characteristic of luxury good consumers, and the growth of the Chinese economy has created
classes of individuals who can now afford luxury goods. Market reforms allowed Chinese citizens to accumulate wealth for the first time in 30 years, at first creating an upper class, and then later contributing to the growth of the middle class in China. Both conspicuous consumption and wealth accumulation are significant factors in the success of the luxury market in urban China.

The mass consumption of luxury goods in the last ten years can be attributed to the creation of the “new aristocracy,” or “new rich,” in Chinese society. The Reform Era and the opening of the market in 1978 by Deng Xiaoping led to the expansion of the urban private sector. China created Special Economic Zones (SEZ) and began privatizing state owned industries. The creation of the “new rich” and their wealth accumulation can be attributed to their connections to government officials, usually their parents. This connection afforded these individuals significant leads in taking advantage of the privatization of state-owned enterprises and allowed them to accumulate wealth before anyone else, thus creating an upper class for the first time in communist China.

Through in-depth personal interviews, Pierre Xiao Lu was able to divide China’s elite into four categories in reference to their consumption of luxury goods. His study was conducted in 2008 from a sample data of 315 people in Beijing.

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11 There is mass discrepency about the percentage of the population in the middle class, as discussed by David S. G. Goodman, Class in Contemporary China, (John Wiley & Sons, 2014), 102. Estimates range from 5% to 68%, depending on one’s definition of what is takes to be in the middle class.
12 Gerth, “Lifestyles of the Rich and Infamous.”
13 Ibid.
14 Ibid.
Shanghai, Guangdong, and Chengdu. The first group, “luxury lovers,” are known for their analytical purchase of conspicuous goods and are slightly collectivist, meaning they take their style tastes from those around them. This group of luxury consumers make up 15.2 percent of all luxury consumers, 60 percent are women aged 28-55 in Guangzhou, Beijing, Shanghai and Chengdu. A luxury lover will purchase a luxury item after seeing another person with the same item, but will almost never purchase a luxury item on impulse. Brands are encouraged to market to this demographic through the creation of design and brand stories, or the story of how the product was made and the history and prestige of the brand itself.

“Luxury followers” are highly collectivist, and are known for impulsive purchases of luxury goods. This demographic makes up 21.9 percent of luxury consumers, and, similar to luxury lovers, the group is predominantly women, at 72 percent, in the same cities, Chengdu, Guangzhou, Beijing and Shanghai. “Luxury laggards,” 27.6 percent of all luxury consumers in China, are known for their impulsive purchases of conspicuous goods. The group is dominated by women at 84 percent, mostly in Chengdu, but also found in other Tier 1 cities. Consumers in this group largely focus on function over brand or aesthetic, which is important in understanding that marketing largely has no effect on their purchase.

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15 6 of the respondents, just 1.9% of those surveyed were from Hong Kong, Macao, Taiwan, or Overseas China. Answers may disproportionately represent women due to the luxury goods surveyed.
17 Ibid., 92-3.
18 Ibid., 94.
Lastly, “luxury intellectuals” are consumers with a vast knowledge of luxury goods, and are known for their purchase of inconspicuous goods. The group is only 55 percent women, the most equal gender dispersion of all four categories, and is largely centered in Beijing.\(^{19}\) A consumer's willingness to pay for a luxury good is based upon the perceived social, economical, and utilitarian value of a good, but as their knowledge of brands increases, the consumer purchases goods that are inconspicuous and more individualistic.\(^{20}\) These individuals seek out new brands and put thought and research into their decisions, and are responsible for bringing new brands into China.

Degen claims that members of the “new rich” are not afforded their status through their wealth alone, but through the purchase of high-end luxury goods in a practice called “conspicuous consumption.”\(^{21}\) Consumers buy certain goods in order to elevate their social status.\(^{22}\) Those in the emerging middle class attempt to use conspicuous consumption to move up the social hierarchy. When a society is extremely fluid, like in China where people are meeting new people everyday due to densely populated urban centers, people begin to assert their class status and position through objects, so others that they do not know are given an indicator of where they stand in relation to another person in the social hierarchy. Some

\(^{19}\) Ibid., 93.


researchers argue that an audience’s reaction to a product provides more satisfaction in conspicuous consumption than the actual use of a product.\textsuperscript{23}

As can be seen in the chart above, the Chinese middle class is a significant factor in the future of luxury goods in China. In 2011, the Chinese middle class was 16\% of the workforce, averaging an income of US$7,264 and US$60,532 annually.\textsuperscript{24}

Today, the Chinese middle class has about 146 million people, compared to 111

million people in 2011.\textsuperscript{25} The middle class is predicted to expand, as the Chinese government has set a target to double the real income of Chinese citizens by 2020. “In the coming years, “Joshua Lu reports, “we [will] see that rising income will bring a couple hundred million people into the consumer class.”\textsuperscript{26} There is no consensus among scholars as to the makeup of the Chinese middle class, but it is understood by scholars that there is, at the most basic level, an upper middle class, and a lower middle class.\textsuperscript{27}

Shopping preferences of the middle class depend upon which subsection a person is in. Those in the lower middle class largely focus on amenities, without much regard to name brand products. Preferences begin to change as one gains more income.\textsuperscript{28} A consumer starts to focus more on name brand goods and begins to buy non-essential goods. Once a person’s income grows large enough to attain upper middle class status, he or she starts to consume luxury goods. These luxury goods include any good that is at the top of its field, like purchasing coffee from Starbucks as opposed to a local coffee shop.\textsuperscript{29} The more experience the consumer has as a buyer of luxury goods, the more sophisticated their luxury goods preferences become. Silverstein and Fiske discuss the recent trend of middle class

\begin{itemize}
\item \textsuperscript{25} Gerth, “Lifestyles of the Rich and Infamous,” 2011.
\item \textsuperscript{27} David S. G. Goodman, \textit{Class in Contemporary China}, (John Wiley & Sons, 2014).
\end{itemize}
consumers to aspire to purchase goods that are just out of reach of their current income.\textsuperscript{30}

According to survey data from the marketing research company Simon-Kucher in 2013, “men are the future growth drivers of luxury in China.”\textsuperscript{31} Geng Song and Tracy K. Lee attribute this difference, in part to the different perceptions of masculinity in China, particularly, the importance of the concept of \textit{pinwei}, “good taste,” to middle class Chinese men that men’s lifestyle magazines have cultivated in China since 1999.\textsuperscript{32}

Chinese men consume a larger amount of luxury goods than in Western nations. \textit{Los Angeles Times} quoted the president of Coach Retail International in Shanghai as saying that Chinese men consume 45 percent of all handbags in China, compared to just seven percent in the United States.\textsuperscript{33} L’Oreal now sells more products for men in China than in Western Europe. Through this marketing strategy, in 2010 L’Oreal experienced their 10\textsuperscript{th} consecutive year of double-digit gains.\textsuperscript{34} In 2010, Chinese men spent over 7 billion RMB (over US$1 billion) on luxury clothing, compared to the 2.8 billion RMB (over US$432 million) spent by Chinese women.\textsuperscript{35}

\begin{thebibliography}{99}
\bibitem{30} Ibid.
\end{thebibliography}
Marketing studies in China has shown that Chinese men are likely to spend upwards of 61 percent more on fragrances than their female counterparts.\textsuperscript{36}

**Defining Luxury Goods**

Numerous scholars have attempted to define luxury goods, and each definition lends greater insight into what luxury goods are, how they are consumed, and the motivations for their consumption. Simply put, a luxury good is a good whose demand increases more than its supply, raising prices disproportionate to the cost of making the product. Luxury brands are "timeless... fast growing, and highly profitable."\textsuperscript{37} Additional aspects of a luxury good may include exclusivity, brand identity, brand awareness, and quality. All aspects together allow luxury brands to maintain their high sales levels and customer loyalty.\textsuperscript{38} Quality and design are very important features in the desirability of luxury brands.\textsuperscript{39}

According to Bernard Dubois, Gilles Laurent, and Sandor Czellar, luxury goods must have the following attributes: excellent quality, a very high price, scarcity and uniqueness, aesthetics and sensuality, ancestral heritage and personal history, and superfluousness.\textsuperscript{40} For premium quality, the customer’s “perception of

\textsuperscript{36} Ibid.


\textsuperscript{39} Gerard Prendergast and Claire Wong, "Parental influence on the purchase of luxury brands of infant apparel: an exploratory study in Hong Kong," *Journal of Consumer Marketing* 20, no. 2(2003): 165

quality [is] more important than the actual quality.”41 As long as the customer believes that the product is of the highest caliber in terms of quality, the actual quality standard of the product does not matter. The aspect of scarcity not only refers to special materials used or the complex skills required to make a luxury good, but also the limited availability and access to a product. When luxury brands make their product too easily available, the desirability of their product decreases, as can be seen with such lines as Coach, Tommy Hilfiger, and currently Michael Kors. The aspect of aesthetics and sensuality refers to the aesthetic aspects of the product, which are viewed by many as the most important aspect of a luxury good. According to Dubois, Laurent, and Czellar, aesthetics impart a kind of “sensual pleasure” to a product.42 Heritage and history refer to the importance in the consumer’s mind of the long history, elaborate processes, or tradition of a luxury brand. Lastly, the scholars define “superfluousness” as referring to the lack of functional value of a luxury product.

Luxury brands are in a unique position in that they can charge a “premium price for the perceived high status of their [product] provides.”43 An example of this can be seen in a bag sold by Louis Vuitton, called the Capucines MM. The purse is made of crocodile and goatskin, and sells for US$60,000. Neither the purse's materials, nor the craftsmanship required to make it, warrant its selling price. The

41 Ibid.
42 Ibid.
purse’s connections to the Louis Vuitton name and its limited availability, increase the price dramatically.

**What luxury goods are being consumed?**

China is unique in the type of luxury goods being consumed. According to Bain and Company, in 2012 accessories were the most purchased luxury item at 28 percent of all global sales revenue, followed by clothing at 26 percent. Beauty products (skincare and makeup products) only made up 20 percent of all global sales revenue. In China, however, perfumes and cosmetics are more sought after than handbags, and fine wines and spirits are more desirable than jewelry.

Consumers are more inclined to purchase luxury watches and cosmetics or skincare products than clothing.

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46 Ibid., 17.
The Chinese market is seeing a significant shift recently away from overtly
conspicuous luxury goods. Preference for large logos has fallen drastically in recent
years, with respondents ranking visible logos at an eight out of ten in important
criteria for purchasing a luxury good.\(^47\) In a 2012 survey, two-thirds of respondents
stated they preferred products that were “low-key and understated.”\(^48\) Compared to
2010, when only 37 percent of respondents responded that large logos were in bad
taste, 51 percent of respondents stated that large logos were in bad taste in 2012.\(^49\)
This trend could be an indication of the increasing sophistication of the luxury
consumer in China in recent years, or merely a response to the Harmonious Society
Campaign, the large government campaign prior to that of Xi Jinping’s anti-
corruption campaign, which focused on addressing inequality in Chinese society.

In terms of luxury cosmetics, skincare and perfume sales, China is the second
largest market in Asia after Japan, and the eighth largest market in the world.\(^50\)
Luxury cosmetics, skincare and perfumes are considered luxury items when their
price is exponentially higher than the average drugstore price for the same product.
Chinese men and women are equally interested in purchasing new products in
luxury cosmetics and perfumes.\(^51\) The luxury cosmetic and skincare industry is
dominated by a few brands; Estee Lauder and Shiseido combined have over 80% of

\(^{47}\) Ibid., 5.
\(^{48}\) Martin Crépy and Fan Oswald-Chen, “Chinese Luxury Goods Buyers Survey 2013”
\(^{49}\) Yuval Atsmon, Diane Ducarme, Max Magni, and Cathy Wu, “China’s New Class of
24.
\(^{50}\) “Cosmetics,” China Daily, accessed December 20, 2015,
the market share in China.\textsuperscript{52} In the first 10 months of 2012, cosmetics sales in China garnered US$17.3 billion.\textsuperscript{53} By 2014, men’s skincare product in China garnered US$1.14 billion in sales revenue, and is predicted to reach US$1.85 billion in 2020.\textsuperscript{54} The growing sale of cosmetics and perfumes in China is attributed to the growing “metrosexual phenomenon,” which originated in Korea and Japan.\textsuperscript{55} For example, eighty percent of men in China believe skincare is important and spend, on average, 25 minutes a day using skincare products.\textsuperscript{56}

The liquor industry in China was worth about US$63.5 billion in 2011, before the government crackdown that began in late 2012. Before the crackdown on corruption and indulgence, high-end spirits and wines were popular items to gift officials and serve at extravagant parties.\textsuperscript{57} The price of Chinese spirits has risen by an average of 5 to 7 percent annually since 1999. One brand of Chinese luxury liquor, called Moutai (or Maotai), has a selling price of 2,000 RMB (US$307.46) per bottle.\textsuperscript{58}

Luxury watches were the hottest commodities in the Chinese luxury market before the government crackdown, as they were commonly gifted to Chinese officials to incur favors. With luxury watches, Chinese consumers are looking for superior craftsmanship, internationally well-known brands, and innovative

\begin{itemize}
  \item \textsuperscript{52} Ibid.
  \item \textsuperscript{53} Ibid.
  \item \textsuperscript{55} Metrosexual in this sense refers to a man who puts effort into his appearance to remain fashionable and well kept, in regards to haircuts or skincare.
  \item \textsuperscript{56} Gonzales, “Chinese Metrosexuals spawn a 241 billion cosmetics market.”
  \item \textsuperscript{57} Explained in further detail in chapter 2.
\end{itemize}
designs. In China there is a “near-monopoly of the luxury watch market by Swiss Brands.” From 2005 to 2012, the value of exports from Switzerland to China grew from 1.6 billion Swiss francs (US$16 billion) to 51.6 billion Swiss francs (US$52.9 billion).61

In 2013, China was the third largest market for jewelry alone, with over US$10 billion in sales.62 McKinsey and Company reports that jewelry is one of the most important sectors for domestic consumption among the upper middle class in China. Chinese consumers are the fourth largest consumers of gold jewelry and the largest consumers of platinum jewelry.63 The luxury jewelry market has grown from 2 billion RMB (US$308 million) in 1990, 89 billion RMB (US$13.7 billion) in 2000, to 454 billion RMB (US$70 billion) in 2012.64 China is unique in that the largest market share of jewelry is fine gold jewelry, compared to diamond jewelry in the United States. More than 75% of women in urban centers own a noteworthy piece of gold jewelry. According to Geoffrey York, in 2005, China consumed over 250 tons of gold.65

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61 Ibid.
63 Ibid., 492.
64 Tao Hsu, Andrew Lucas, Zhili Qiu, Mu Li, and Qingyuan Yu, “Exploring the Chinese Gem and Jewelry Industry” Gems & Gemology 50, no. 1 (Spring 2014).
In 2010, the designer handbag market in China garnered a profit of about 14 billion RMB (US$ 2.16 million). An example of conspicuous consumption, owning a designer handbag in China creates the image of high status, making their consumption vital for those who seek upward social mobility. According to a 2013 survey by Simon-Kucher, the most preferred brands in the Chinese luxury market were Louis Vuitton (24.3 percent), Hermès (21.3 percent), and Gucci (11.8 percent). According to a survey by McKinsey Marketing Solutions, luxury consumers largely prefer Western products. Only twenty percent strongly prefer Chinese products.

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China is the second largest consumer of luxury cars. The Chinese market is the biggest overseas market for brands like Rolls Royce, Audi, BMW, Bentley, and Lamborghini. According to China Daily, China is among the top three markets for Porsche, Mercedes-Benz, and Ferrari. The Chinese market for luxury cars is expanding. In 2011, China purchased 980,000 units and is predicted to purchase 2.7 million units of luxury cars in 2020. The Chinese luxury car market is expected to surpass the United States by 2020.

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How are luxury goods being consumed?

Trends in Chinese luxury good consumption point to two consumption practices that are unique: the large amounts spent on luxury goods abroad compared to other nationalities and the tradition of “gifting.”

Chinese consumers often purchase luxury goods abroad, a trend that appears to be unaffected by the crackdown. For example, sixty percent of watches purchased by respondents in a two-year period before 2013 were purchased abroad. In 2011, Chinese tourists spent over 52 billion RMB (over US$8 million) outside China on luxury goods. In 2014, 117 million Chinese people traveled internationally. That same year, Hong Kong, Macao, and Taiwan saw a 5 percent increase in luxury purchases by Chinese mainlanders, from 27 percent in 2014 to 31.8 percent in 2015.

One of the major factors to buy luxury goods abroad is a lower price, due to lower taxes and tariffs, or lack of taxes and tariffs in foreign markets. The average price abroad for watches is 1.5 times lower than those sold in China. A luxury bag in Beijing is forty percent more expensive than the exact same model in Paris, due to

75 As opposed to the 4 percent decrease in luxury goods purchased on the mainland. Cong, "中国奢侈品市场走向成熟," 2015.
taxes and tariffs, so Chinese tourist splurge when they are abroad.\textsuperscript{77} The phenomenon of Chinese consumers making their purchases abroad has led to luxury brands reducing prices in China and slightly raising prices in European store in 2015 to equalize prices and incentivize more Chinese consumers to purchase domestically.\textsuperscript{78} It should be noted, however, that Chinese consumers spent an equal amount abroad and domestically on shoes and small leather goods.\textsuperscript{79}

Other factors contributing to the large amount of luxury goods purchased abroad are concerns about counterfeits, poor service quality, access to more brands, and the lack of availability of newer products upon their release compared to foreign markets.\textsuperscript{80}

The practice of gifting is very important in the Chinese luxury goods market. A common practice in business ventures, businessmen will present a gift to an official in order to gain favor, connections or \textit{guanxi}. \textit{Guanxi} is a series of “relationships that are based implicitly on mutual interest and benefit” in Chinese society.\textsuperscript{81} The practice is especially important in business deals that require large amounts of government oversight, such as the rezoning of land. Watches and expensive liquors were the most common gifts, though expensive handbags would sometimes be gifted to the wives of officials. Some estimate that before the most


\textsuperscript{78} Cong, "中国奢侈品市场走向成熟,” 2015.

\textsuperscript{79} Crépy and Fan Oswald-Chen, “Chinese Luxury Goods Buyers Survey 2013.”

\textsuperscript{80} Ibid., 13.

recent anti-corruption campaign, gift giving accounted for 50 percent of all luxury sales, and 75 percent of luxury watch sales.\textsuperscript{82}

\textbf{Summary}

The market reforms of the 1978 led to the ability of Chinese citizens to accumulate wealth, leading to the creation of the Upper and Middle Class in Chinese society. Due to the fluid state of Chinese society and the large populations of cities, Chinese citizens often assert their social position through the use of conspicuous consumption, using recognizable goods to stress one’s social position above another person. This need for a medium to express one’s status led to an explosive demand for luxury goods, predominantly Westerns goods, as they carry an image of quality and prestige in China.

China differs from Western nations in luxury goods consumption in numerous ways. Due to high domestic tax rates, large portions of luxury goods purchased by Chinese consumers are made abroad. Men have historically made the majority of luxury purchases, but this is changing as more women enter the middle class and begin to shop for luxury goods.\textsuperscript{83} Lastly, the Chinese custom of gifting to incur favor from government officials has created a demand for luxury goods like watches and high-end cognacs.

Rising demand for luxury goods has caused luxury sales to increase exponentially, leading many to believe China will soon become the world’s largest single consumer of luxury goods. This makes understanding the current market in


\textsuperscript{83} Erwan Rambourg, \textit{The Bling Dynasty: Why the Reign of Chinese Luxury Shoppers has only just Begun} (Singapore: John Wiley and Sons Pte. Ltd., 2014), 27.
China, who is purchasing, how they are purchasing, and how the government is involved in these purchases vitally important in understanding a market that employs thousands and generates billion of dollars in revenue.
Chapter 2: The Crackdown

This chapter examines the different aspects of anti-corruption campaigns in the People’s Republic of China, with specific attention paid to that of the most recent anti-corruption campaign. In late 2012, Chinese President Xi Jinping implemented a government crackdown on corruption and extravagance. Xi vowed to “bring down both ‘flies and tigers’ – corrupt cadres at all levels,” believing both pose a threat to the survival of China and the Communist party.84 In addition to in-depth investigations into personal and business lives of government officials, the campaign includes restrictions on what cars officials can drive or own, and what officials can eat. This paper seeks to show that these measures have led to a decrease in gifting and conspicuous consumption among officials, both of which contribute to large portions of luxury sales in China and abroad.

A History of Anti-Corruption Campaigns in Modern China

Since Deng Xiaoping implemented economic reforms to open up the market in 1978, the fight to stem corruption has been a near constant battle. China has experienced five major anti-corruption campaigns, the first starting just a few years after the reform, beginning in 1982. The five anti-corruption campaigns have largely occurred back to back, and have had varying levels of effectiveness during their duration.

The anti-corruption campaigns have, with the exception of the most recent campaign, focused on different types of corruption. The 1982 anti-corruption campaign focused on economic crimes. Of 136,024 cases, 44,000 people

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surrendered themselves to the police and 26,000 people were convicted. In contrast, the anti-corruption campaign that followed, from 1983 to 1987, focused on “consolidating party organization.”85 The campaign focused on finding party members who had violated party discipline or engaged in corrupt activities. The number of senior officials at the county level or above who were punished during the campaign was above 35,000. The anti-corruption campaign from 1988 to 1989 focused on graft and bribery, resulting in the arrest of 20,794 individuals and the recovery of 482.86 million RMB (US$74.23 million). The last large anti-corruption campaign lasted from 1993 to late 2012, ending with the most recent anti-corruption campaign. The campaign sought to “forcefully [curb] unhealthy tendencies within government departments,” through the “self regulation of senior officials” within the Chinese Communist Party, as well as the strengthening of “the investigation and persecution of large-scale corruption cases.” 86

**President Xi’s Campaign**

The most recent anti-corruption campaign began in late 2012. At a Politburo meeting on December 5th, 2012, newly elected President Xi Jinping introduced the plan for a wide-scale crackdown on corruption.87 Xi has been quoted as saying that he believes corruption poses an “existential threat” to China that, if unaddressed,

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86 For further information on the intricacies of the campaign see: Dai, “Corruption and Anti-Corruption in China,” 67.
87 The National People’s Congress, 2987 members, elects members to a Central Committee, made of 205 full members and 171 part-time members. The Central Committee in turn selects 25 members to create the Politburo at their first meeting, called the first plenum. Of the Politburo, 7 elites members are elected to the Politburo Standing Committee, which in turn elects the Party Secretary, currently Xi Jinping.
will lead to “the collapse of the CCP and the downfall of the state.”\textsuperscript{88} An “assumption has been that eradicating corruption can only mean a swift improvement in the [Chinese] system.”\textsuperscript{89} The campaign is quite different from those in the past, as Xi declared, “that no corrupt official will be spared.”\textsuperscript{90} Previous anti-corruption campaigns have solely focused on the conviction of low to mid-level officials. Xi, however, has addressed corruption at all levels of the government. As of February 14, 2015, about 100,000 officials had been punished for corruption.\textsuperscript{91} Officials are detained, arrested, and in some extreme cases, executed, in the recent crackdown on corruption.

The number of high-ranking officials that have been investigated or convicted under the new anti-corruption campaign is constantly growing. Liu Han, a Chinese mining billionaire, was convicted of multiple accounts of homicide.\textsuperscript{92} Xu Caihou, the former vice-chair of the Central Military Commission and Politburo member, was convicted of accepting bribes in exchange for promotions within the military.\textsuperscript{93} Zhou Yongkang, former “security tsar,” was sentenced to life in prison for “abuse of power, accepting bribes and revealing state secrets.”\textsuperscript{94}

\textsuperscript{89} Branigan, “Politburo, army, casinos” (2015).
\textsuperscript{90} Leung, "Xi’s Corruption Crackdown" (2015).
\textsuperscript{91} Branigan, “Politburo, army, casinos” (2015).
\textsuperscript{92} Ibid.
\textsuperscript{93} Ibid.
The current anti-corruption campaign is the most highly publicized anti-corruption campaign in recent Chinese history. News sources in China have been following the campaign very closely, and the cases of high-ranking officials like Bo Xilai and Zhou Yongkang garnered significant media attention in China. The campaign has been enormously popular and has created a “populist edge to Xi’s image,” even contributing to a growing cult of personality around the president.

President Xi Jinping’s worries that corruption will destabilize the party are not unfounded. The GINI coefficient for China, a measurement of inequality, has “increased more than 50 percent in the last two decades.”95 In fact, urban dwellers earn over four times more than the income of their rural counterparts. Most Chinese assume the incredibly “wealthy amassed their wealth through corruption,” taking advantage of land speculation and privatization of State Owned Enterprise (SOE) through their connections to officials.96 Some experts argue that the Tiananmen Protests of 1989 were primarily to protest official profiteering. Therefore, an address of the corruption in China by Xi Jinping is, in some ways, essential to keeping the Chinese Communist party in power and quelling civil unrest.

Widespread corruption is the result of two major factors: the nation’s one party system and the state control of the economy. China’s one party system has led to an extreme “lack of firm checks and balances.” This absence of regulation has led to widespread issues with graft and bribery. Some claim, “no Chinese institution is

96 Ibid., 500.
According to A.K. Jain, bureaucratic discretionary power, and the association of this power with economic rents, are two of the three prerequisites for corruption, both of which China’s one-party system helps facilitate. According to some, Xi is “betting that changing the moral character of officials will allow him to leave intact the one-party state.”

State control of the economy refers to state control of resources, businesses, and even land. Because the government has such vast control over all areas of the economy, officials use their regulatory power to exact large amounts of control over businesses. For example, Zheng Xiaoyu accepted over US$850,000 in bribes from pharmaceutical companies when he was head of the State Food and Drug Administration, resulting in the death of over 100 people in Panama due to contaminated cough syrup. This is just one extreme example of the influence officials hold over private business. Prohibiting businesses from starting or continuing ventures without official permission allows officials to line their own pockets.

There has been no significant move to address corruption in the military, largely in part because President Xi has not completely strengthened his position within the Chinese military. The military equivalent of the CCDI, the Commission for Discipline Inspection of the Central Military Commission, has not experienced any changes in staff or leadership that would allow Xi Jinping to extend his reforms into

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97 Leung, "Xi’s Corruption Crackdown" (2015).
99 Barbara Demick, “China trying to pull back on gift-giving.”
100 Leung, "Xi’s Corruption Crackdown."
the military. It is well known that corruption is prevalent in the military, as junior military officers will often bribe higher-ranking officials in order to be awarded promotions. After the arrest of Xu Caihou, officials found numerous luxury items in his house, like gold, cash, and jewels, which were, purportedly given to him from junior military officers in exchange for promotions.

**The Campaign’s Effect on Luxury Consumption**

President Xi’s anti-corruption campaign is multifaceted, focusing on corruption, like graft and bribery, as well as extravagance among high-ranking officials. The Chinese Communist Party Politburo meeting on December 5th, 2012, “unveiled” a list of “do’s and don’t” for top officials in an attempt to win “the confidence and support of the people.” Some argue the campaign’s restrictions are in place to make the wealth gap less visible, while others argue the purpose of the list was to improve the image of the party. Over the course of the next year, the list was expanded upon to include restrictions for automobile use, banquets, and work dinners.

By December 2013, shark fin soup, bird’s nest soup, and wild animal products were banned from official dinners. Restrictions have been placed on official banquets, limiting officials to just four courses and a soup. These

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101 Ibid.
102 Ibid.
105 Donovan, “China’s Crackdown on Corruption and Government Spending.”
restrictions have negatively affected the Chinese luxury catering industry, nearly destroying a whole industry as officials sought to avoid any practices that would put them under scrutiny.107

From the beginning, the campaign included regulations on the use of luxury vehicles by officials, expanding over time to be restrictive. On March 31st, 2013, the government implemented new regulations that revoked the eligibility of foreign luxury car brands, like BMW and Bentley, to qualify for military or armed police plates.108 By November, 2013, China’s State Council “released regulations” banning provincial officials from “using government cars for general use.”109 This regulation was expanded upon less than three months later, when the State Council banned “the Chinese military from purchasing any foreign made cars.”110

Early morning raids of foreign luxury firms, have become commonplace in China.111 David Blumenthal, an analyst for Foreign Policy, makes the argument that if China can increase the odds that its own businessmen will succeed in the global market, it can “centralize political and economic power and make it more difficult for foreign businessmen to compete” in the Chinese market.112

107 Ben Moshinsky, “This one chart shows how China’s corruption crackdown put an end to extravagant parties.” Business Insider, August 6, 2015.
108 Donovan, “China’s Crackdown on Corruption and Government Spending.”
109 Ibid.
110 Ibid.
112 David Blumenthal, “Why China is shooting itself in the foot by cracking down on foreign companies.” Foreign Policy, September 20, 2014.
Effect on Gift-Giving

This paper seeks to display that the government’s crackdown on the practice of gifting was a contributing factor to the market loss of many luxury brands in China. Luxury cognac sales fell 11% in 2013, compared to a growth of 16% just the year before. Shares in Kweichou Moutai, a luxury brand that sells white spirits, saw a 27% drop in shares over just 6 months. Since the crackdown, liquor brands are pushing more mid-priced products. For example, Martell is now selling a product called Martell Noblige for $75, compared to a typical bottle of the brand’s XO cognac.

Watches, a major aspect of gifting, experienced a decrease in sales due to the campaign. Due to the campaign, luxury watch sales fell 9% in 2013, compared to their 6% rise in sales in 2012. Watches worth over $10,000 were primarily targeted in the campaign. As a result, the market now favors watches in the medium price range, the $1,600 to $4,000 range. Luxury watch dealers believe the downturn in sales will not be permanent, as the growing middle-class in China is expected to absorb the revenues lost from sales of high-end watches.

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113 Kate Holiday, “Gift-giving crackdown hits China luxury retailer,” CNBC Asia, February 8, 2013.
Effect on Luxury Goods

Only the luxury handbag brands Prada and Burberry have mentioned any connection between a decrease in sales and gift giving in China.\textsuperscript{118} As of July 15\textsuperscript{th}, 2015, Burberry sales in Hong Kong, a common destination for Chinese luxury buyers to make purchases, were down 12.7\% from the year before.\textsuperscript{119} The luxury brand Prada has experienced even greater losses. Prada, in the final quarter of 2015, experienced about a 38\% decrease in sales, compared to the year before.\textsuperscript{120}

China consumes massive quantities of gold jewelry, but recently jewelry makers have been working to create a market demand in China for diamonds. Jewelry makers in China have convinced consumers that diamonds are a necessity, rather than a luxury, to avoid situations that would put their buyers in difficult situations with the law.\textsuperscript{121} As luxury has been out a favor quite regularly in the past decade, with the Harmonious Society campaign and the current anti-corruption campaign, turning diamond jewelry into a type of necessity, like in the United States with diamond engagement rings, preserves the market demand for something that otherwise would often be banned or restricted by the government. As a result, eight out of every 10 couples surveyed in first-tier cities in China were willing to purchase diamond wedding rings, and 50\% were willing to spend 15,000 RMB to 20,000 RMB

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{118} Liana Brinded, “Prada sales hurt by crackdown in China on gifts for corrupt officials,” \textit{Business Insider}, February 23, 2015.
\item \textsuperscript{119} Sean Farrell, “Burberry shares drop as sales in Hong Kong continue to fall,” \textit{The Guardian}, July 15, 2015.
\item \textsuperscript{120} “China weakness drives Prada quarterly profit down 38\%” \textit{CNBC}, December 16, 2015.
\item \textsuperscript{121} Tim Treadwell, “Amid Chinese Crackdown, Merchants Try to convince buyers Diamonds aren’t Luxury,” \textit{Forbes}, February 5, 2014.
\end{enumerate}
\end{footnotesize}
on their wedding jewelry.\textsuperscript{122} When put into perspective of the average per capita income in China, between 16,885 RMB to 32,154 RMB, the purchase of diamond engagement rings is sizeable purchase.\textsuperscript{123}

The campaign has focused on conspicuous luxury goods, so cosmetics, skincare, and perfumes have largely been unaffected by the crackdown itself. Watches, liquor, and luxury automobile are the most easily targeted, and have experienced the greatest losses in revenues. In addition, there is no evidence that the government prefers domestic luxury goods to foreign, wanting instead to address luxury consumption regardless of origin. This lack of bias can be seen in the rather large decrease in sales that Chow Tai Fook, a Hong Kong-based jeweler experienced in 2013, before recuperating losses in 2014.

\textbf{Summary}

The efforts of Xi Jinping to address corruption among officials in the Chinese government, from the lowest officials to the highest, began in late 2012 and has had many hard reaching effects, chief among them a reduction on luxury item sales. Conspicuous consumption by officials is one of the major targets of the campaign. This focus has led to restrictions on luxury car use and purchases by officials, limitations on dining extravagance, and boundaries on the acceptance of high-end gifts, like liquor or watches, to officials. As the Chinese market is among the greatest consumers of high-end liquor and luxury watches, the respective markets for these products have seen a large decline in sales.

\textsuperscript{122} Tao, “Exploring the Chinese Gem and Jewelry Industry,” (2014).
\textsuperscript{123} David S. G. Goodman, \textit{Class in Contemporary China}, 45.
Ch. 3: The Government Crackdown and its Effect on the Marketing of Luxury Goods

The government crackdown on corruption and extravagance has many implications for luxury advertising in China. In February 2013, the CCP announced a ban on TV and radio advertisements for luxury goods. According to one official from the State Administration of Radio, Film, and Television (SARFT), luxury advertisements “publicized incorrect values and helped create a bad social ethos [within China],” a statement which may, in part, relate to the government’s efforts to counter dissatisfaction with China’s growing inequality.124 Following the announcement, Burberry, LVMH, Richemont and Chow Tai Fook stocks fell. Looking back, the ban is viewed as one of the first attempts by Xi Jinping to “douse growing frustration in the wealth gap between the country’s rich and poor—and to stop corruption conducted through luxury gift-giving.”125

The crackdown, which led to a ban on advertisements of luxury items in public places, continued the luxury ad ban that had occurred in 2011, focused on increasing social harmony and decreasing awareness of the growing inequality in Chinese society. Forcing luxury brands to become creative with their strategies in how to reach viewers and increase brand awareness caused brands to focus on advertisements through e-commerce, magazines, and product placement in Chinese film, a public avenue that has not yet been restricted from marketing luxury

125 Ibid.
brands.\textsuperscript{126} The ban has seen an interesting shift in the content of advertisements as well, one that can be seen globally as most luxury brands use the same marketing campaign on an international scale. Understanding the effect of the crackdown on advertisements in China is important because advertisements are an indicator of what luxury lovers and luxury followers will purchase, as the advertisements are a primary source of information for the two groups.

\textbf{Advertising of Luxury Goods in China}

In a study by Zhou Nan and Russell W. Belk, the researchers focused on the effect of global and foreign appeals in advertising on Chinese luxury consumers. The study found Chinese consumers held two opposing preferences as a result of advertising. They preferred goods with a nationalistic Chinese element or goods of high value. The nationalist preference invokes Chinese values that are seen as local in origin, while the second appeals to a consumer’s desire for “global cosmopolitanism and status goods.”\textsuperscript{127} This study is important in understanding that Chinese consumers do not have a one-sided fascination with foreign goods, but also embrace Chinese goods. Equally important is the implication that products that display global cosmopolitanism are seen to convey status to their user, a straightforward example of conspicuous consumption.

Chinese consumers hold a high degree of skepticism towards the advertising mediums of television, radio, newspaper, magazine, and the Internet, all outlets luxury brands use to market their goods in China. The recent ad ban has prohibited

\begin{itemize}
\item \textsuperscript{126} “China’s Latest Ad Ban a Blessing in Disguise for Luxury Brands?” \textit{Jing Daily}, February 15, 2013.
\end{itemize}
advertising luxury goods in public space, limiting luxury brand advertising to magazines and the Internet. One study has shown that Chinese consumers least trust cosmetics, pharmaceuticals and real estate, probably due to misleading and deceptive advertising that overstate the benefits of products sold by those industries. This statistic has significant implications for luxury sales in China, as luxury goods for cosmetics and skincare make up the largest percentage of all luxury goods purchased. The study also found that Chinese were more skeptical of print media than television.\(^{128}\) This finding is important in understanding luxury advertising, because when the brands were forced to start focusing heavily on e-commerce and advertising, they began streaming more mini-commercials on Chinese web-sites like Youku that are more effective than print advertisements in directly targeting younger audiences.

One of the most important characteristics of luxury goods is that luxury goods and brands are exclusive, but this characteristic also creates an interesting paradox surrounding the luxury good market. To increase revenues, companies often try to increase sales, but luxury brands can do no such thing. If sales of their products increase, the exclusivity of the brand is harmed, hurting the brand’s luxury image. Strach and Everett researched the diminishing rarity value of luxury goods in relation to their price. They found that as a product becomes more affordable and is purchased at a higher volume, the product loses its uniqueness and the value of the

product is diluted.\textsuperscript{129} In order to protect their brand, luxury companies restrict the availability of their products through selective distribution, and in some cases, like that of Louis Vuitton, assuring that excess merchandise cannot be sold at discount prices by burning anything not sold at the end of the season. Luxury brands keep demand up by the regular seasonal release of new products, causing luxury brand conscious consumers to continue to purchase new luxury goods.

The need for exclusion has adverse effects on its magazine readership. In 2014, Jiang, Gao, Huang, DeWall, and Zhou found that luxury advertisements create negative mental representations, similar to those of social exclusion in Chinese viewers. Given numerous advertisements to look at, of luxury and non-luxury brands, participants in the study were more likely to feel “rejected by models in the luxury advertisements than models in the non-luxury advertisements,” because the luxury advertisements appear unattainable to the average viewer.\textsuperscript{130} In another study of magazines in China, researchers found that Chinese models were only present in 26.5 percent of advertisements aimed at their own ethnicity, showing that part of this feeling of rejection could be attributed to the lack of ethnic representation in magazine advertisements.\textsuperscript{131} Looking at luxury brand advertisements results in decreased life satisfaction and increased the viewer's expectations of being rejected, which could have implications for social instability

\textsuperscript{131} The other 59.2\% of advertisements studied either featured models of another ethnicity, or featured no model at all.
due to economic inequality. As discussed in chapter 2, the growing inequality is a major problem for the Chinese Communist Party.

In 2013, some argued that the advertisement ban would be good for luxury brands, if it affected them at all. Chinese luxury advertisements had previously been restricted in 2011 through a ban to promote societal harmony, so the industry already knew how to work with a ban on luxury good ads by 2013. The ban only addressed luxury advertisements in public areas, so luxury brands went online to advertise and create greater brand awareness. China’s luxury ecommerce market is worth over $3 billion, and is used by retailers for both advertisement and sales.132 Brands like Louis Vuitton, Burberry, and Chanel all have active WeChat accounts with extensive mobile content to engage consumers.133 Advertisements that would once have played on public radio or television turned to sites like Youku to air their ads. The move to digital allows luxury brands to reach their target audience, young, middle class Chinese with the purchasing power support of both their parents and grandparents, easily and efficiently without upsetting individuals who would otherwise view the advertisements as detrimental to the stability of Chinese society.134

The 2013 Luxury Advertising Ban
Since the government crackdown began in late 2012, marketing in China has seen a subtle, yet significant change: the use of Chinese models in international

luxury marketing campaigns. Through my research I have discovered that the number of Chinese models has decreased since the crackdown.

The government crackdown on corruption has had an effect on the percentage of non-western models present in advertisements in Elle China. The percentage of non-western models decreased over the course of 5 years, as can be seen in the chart below. In 2010, the percentage of non-western models in Elle China was 21 percent, compared to 12 percent in 2015. The highest percent of non-western models occurred in 2011 with 25 percent of advertisements featuring Asian models.

Previously, advertisements marketed to the Chinese audience would only, with some exceptions,\[^{135}\] feature Western models or actresses and actors. Luxury brands have now begun to include Chinese models in advertisements alongside Western models, and some models have even held campaigns for luxury brands by

\[^{135}\] Skincare advertisements are the notable exception, which usually featured an Asian model before the crackdown. From 2012 to present, the researcher found that the presence of western models in Chinese print advertisement increased.
themselves. This trend of fewer Asian models in advertisements reflects the small number of Chinese models in the fashion industry. While the number is growing, it is still extremely small in comparison to the number of Western models present. Fei Fei, Ming Xi, Liu Wen, and Sui He are the most used female Chinese models for ad campaigns over the last 5 years, showing that the increasing diversity in global advertisements is not as accepting of new talent for Chinese women as it is for Western models.

The following is a dissection of luxury advertisements featuring Chinese models that have been released since the crackdown began.

**Chinese Luxury Ad Campaigns: Elle China Case Study**

*Elle China* is an international fashion magazine first introduced in China in 1988. In 2007, Elle China had 4.81 percent of total advertisement expenditure for the top 10 magazines in China, second only to Cosmopolitan China. Today, *Elle China* reaches 6 million readers every month, with its average viewership around 16 to 24 years old, predominantly female. The target audience of *Elle China* is the upper middle class and above with its luxury articles and advertisements.

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137 Ibid.


139 Zhou Yu, Leng Shujia, Zhang Ge, Zou Wei, "Analysis and Marketing Strategy of Elle Magazine in China,” (masters project, Hong Kong Baptist University School of Communication and School of Business, May 2012): 42,
The researcher set out to determine whether the government crackdown on corruption influenced how advertisements were presented in luxury lifestyle magazines. To do so the researcher analyzed the January issue(s) of *Elle China Magazine* from 2010 to 2015. 140

The researcher sought to analyze the magazine issues in regards to presence of models in the advertisements, the presence of non-western models in advertisements, and number of advertisements per issue advertising a certain type. The researcher focused on the presence of models, as opposed a lack of models in advertising. The presence of models in an advertisement in an active choice, and a more expensive one, pointing to a belief by advertiser that the presence of a model in warranted or required to advertise their good.141 In addition to statistical analysis, the researcher compared advertisements of skincare and makeup, watches, jewelry, fragrances, technology, automobiles, and clothing, as well as the individual advertisements of Rolex, Dior, Gucci, and Louis Vuitton over the course of five years to determine if marketing strategies were changed to address changes in the corruption campaign.

http://comd.hkbu.edu.hk/mm/mmgtproject/image/projects/2012_project/12_group5.pdf.

140 For the most part, luxury brands release the same ad campaign internationally, with the exception of Rado, a Swiss watchmaker, which releases advertisements for its Chinese audience.

141 A study by ### found that western models were more commonly used for advertisements that focus on their body, and Chinese models were more commonly used in advertisements focused on facial beauty. This led the researchers to conclude that the presence of western models in Chinese advertisements was a type of racial sexual objectification.

The researcher analyzed the presence of models in advertisements in January issue of *Elle China* over the course of 5 years. In the process, I found that the percentage of advertisements per issue featuring models hit a low in 2013, before rebounding the following year. In 2010, 55 percent of advertisements [N=449] used models, compared to 60 percent [N=449] in 2015. The lowest percent was in 2013, with only 49 percent of all advertisements in the issue featuring a model.

![Elle China Advertisement Per Issue Featuring Models](image)

**Watches**

Of the 451 advertisements featured in Elle China from 2010 to 2015, only 47 were for luxury watches, only about 10 percent of all the advertisements were for watches. The most prominent brands for luxury watches featured in Elle China were Rolex, with 6 advertisements, Chopard, Jaeger-Coultre, and Rado with 5 advertisements each, and Chanel with 4 advertisements.
Rolex, a luxury watch manufacturer, had an advertisement in at least one January issue of Elle China from 2010 to 2015, with the exception of 2012. Chronologically, Rolex has gone from overtly grandiose advertisements in 2010 and 2011 to more streamlined advertisements 2013 to 2015. Both the 2010 and 2011 advertisements the western model is the focal point, with the rendering of the watch placed in the far bottom left corner. In the 2013 and 2015 advertisements, the watch is the focal point. No model is present, and the muted white and off-white background place extra emphasis on the watch being advertised. The 2014 advertisement features female athletes Caroline Wozniack, Ana Ivanovic and Lindsey Vonn along with musicians Yujia Wang and Anoushka Shankar.¹⁴² The advertisement carries the aesthetic of the 2013 with the green line cutting through the center of the page.¹⁴³

¹⁴³ Rolex, Advertisement, January 2013, Elle China no. 2, 2-7.
Through the analysis of the watch advertisement over the period of 2010-2015, the researcher found no evidence of a shift in advertisements of watches to suggest a connection between the crackdown and style of advertisement. Watch advertisements featured similar numbers of non-western models per issue, one, over the period of time, with the exception of two advertisements featured in the 2014 January issues. On average, 56 percent of all watch advertisements featured no model. The presence of opulent backgrounds, featuring a bed of rubies, diamonds, or feathers adds to the extravagance of the watch being presented, though by 2014 watch advertisements without a model became more streamlined.
Handbags

From 2010 to 2015, 35 of the 451, or 8 percent, of all advertisements in Elle China were for handbags. Of those 35 advertisements, only 2 did not feature a model. Only 4 of the 35 advertisements featured a non-western model, one for each January issue for 2013 and 2014.

As for the general aesthetic of the advertisement and if any change was seen over time, the researcher analyzed the advertisements of the brand Gucci, which had an advertisement every year excluding 2011. Every year Gucci had an advertisement for their handbags featured in Elle China, the advertisement featured a western model holding a Gucci handbag, in the form of a satchel, totes, and cross body. The advertisements for 2010 and 2013 are in quite opulent settings, western settings. The setting for 2010 is clearly at a high-class swimming pool and 2013 at a garden or beach party.\textsuperscript{144} The advertisements for 2014 and 2015 support the researchers claim that advertisements were effected by the corruption campaign in

China, as there is little to no setting aside from the non-descript chairs the respective models sit on, holding their Gucci handbags.\textsuperscript{145}

Louis Vuitton had an advertisement in Elle China every year starting in 2011. All advertisements featured a western model modeling both Louis Vuitton handbags and clothing. For the purpose of this analysis, the researcher focused solely on those pictures in the spreads that feature a Louis Vuitton bag. The advertisement for 2011 and 2012 are set on a beach, as the model in one picture is surrounded by palm trees and in another the model is placed before an ocean for both spreads.\textsuperscript{146} The advertisement for 2013 and 2014 prominently displays the model in a hot air balloon, though the advertisement for 2014 places the model in a European setting, perched from the side of the balloon’s basket in front of St. Mark’s Square in Venice.\textsuperscript{147}

\begin{flushend}
\textsuperscript{147} Louis Vuitton, Advertisement, January 2013, \textit{Elle China} no. 2, 1.
\end{flushend}
2014 features a model leaning off a balcony in what appears to be a traditional European opera setting. The 2015 advertisement stands out, as it is merely a model surrounded by Louis Vuitton merchandise in a white background. The researcher does not think this is any indication of a shift among luxury advertisement strategies to avoid government censorship, but rather a stylistic shift in presentation.

Lastly Dior, which had advertisements for their leather goods in Elle China every year from 2011 to 2015, shows a shift in 2013 and 2014. Every year from 2011 to 2015, Dior featured the French actress Marion Cotillard in its handbag advertisements for Elle China. The actress was placed in various setting, beside a pool in Hollywood, on a beach, in a white

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149 Louis Vuitton, Advertisement, January 2015, Elle China no. 1, 29.
room, at night in an urban center, or on the London Eye Ferris Wheel.\textsuperscript{150} For 2013 and 2014 especially, the setting of the photograph is largely ambiguous, a simple white room with blue paint drips and the urban center setting of the 2014 ad is largely black, with lines of light from leaving a long exposure on the camera.\textsuperscript{151} The advertisement for 2015 was set at the top of the London Eye Ferris Wheel overlooking the Houses of Parliament in London.\textsuperscript{152} The change in setting for 2013 and 2014 could be a reaction to the anti-corruption campaign in China, or a stylistic choice. Without direct input on the shift from those involved in the various photo shoots, one cannot say definitely if the shift is in any way related to the situation in China.

Without direct insight into the creative processes involved in the creation of various advertisements, the researcher cannot definitively state whether or not luxury advertisements of handbags was affected by the situation in China. That being said, there is a clear shift in advertising aesthetics around the time the anti-

\textsuperscript{151} Dior, Advertisement, January 2013, \textit{Elle China} no. 1, Back Cover.  
\textsuperscript{152} Dior, Advertisement, January 2015, \textit{Elle China} no. 2, 2-3.
corruption campaign in China was gaining momentum. The change in setting from clearly identifiable settings to non descript, almost monochromatic, backgrounds for 2013 and 2014 for Dior could be a reaction to the anti-corruption campaign in China, or a stylistic choice. In a similar manner, the lack of a setting in Gucci advertisements for 2014 and 2015, could be a similar reaction by a luxury company to create an international advertising campaign that could be used in China. In terms of models, whether they are present in an advertisement, or whether the model in western or not, the researcher found no significant lasting change over the course of five years. The January issues of 2013 and 2014 did see an increase of one advertisement per release, four in total, but this shift did not carry on to 2015.

In luxury car advertising, print advertisements did not change in their aesthetic from 2012-2015. For example, the provided images are for the 2012 Audi advertisement campaign and that of the 2015 advertisement campaign. The presence of an actual setting in the 2015 advertisement is all that really sets the two apart. In both images, the car is the central focus, not a model or actor-spokesperson, as is common in American automobile advertisements. Over the course of the five years studied, Elle China had around five automobile advertisements per January issue. Of the 23 advertisements for automobiles
featured over the five-year period, only 3 had models in them, 2 before the crackdown by Audi and Lexus, and 1 after by Volkswagen. This means that 83% of all the advertisements had no model, and only 13% featured a model at all. All three advertisements with a model featured an Asian model.

**Summary**

The ad campaign started in early 2013 caused some interesting reactions among luxury brands as they adapted to the new restrictions. Luxury brands began using sites like Youku and Weibo, and apps like WeChat to reach younger audiences to increase brand awareness, to circumvent the ban on luxury advertisements in public places. The use of the Internet to reach new consumers has remained constant.

Through the analysis of the January Issues of the Elle China magazine from 2010 to 2015, the researcher saw a shift in handbag advertisements in 2013 and 2014, but not in aesthetics or presentation of luxury watch advertisements for the same period. Overall, the researcher saw a decrease in Asian models present in luxury advertisements in *Elle China*. The researcher acknowledges that shifts in aesthetics could merely be a change in artistic preference of those involved in the various photo shoots to create the advertisements. Without input from those involved in the creative teams that created the advertisements, any connection between the shift in aesthetics and the anti-corruption campaign is speculative. No shift in aesthetics or presentation can be found in luxury watch advertisements for the same period.
Chapter 4: Market Losses

The luxury market in China has regularly been reported as having taken a serious hit in sales due to the recent government crackdown. Restrictions on gifting, banqueting and luxury car use have been said to have negatively affected the luxury market’s success in all areas. The restrictions, however, are only targeted at officials, and have no bearing over the shopping practices of everyday Chinese citizens, despite what international media is reporting about China’s effect on the luxury market.

Over the course of this paper, I have sought to answer the question of whether the government crackdown on corruption and extravagance had affected the consumer preferences of China as a whole. The best indicator of a shift in marketing preferences among Chinese consumers is how these consumers use their money; are they still purchasing luxury goods? Has the market stayed at a level of sales at or around that of those pre-crackdown, or has there been an increase in luxury sales, indicating not only resilience in luxury consumption, but an increase of new consumers purchasing luxury goods?

Luxury Retailers

The organization of the international luxury market makes finding annual revenue for a single brand extremely difficult. The market is organized into conglomerates, the largest being LVMH, followed by Kering and Richemont. Other luxury subsidiaries fall under more specialized companies like Swatch, which owns numerous watch brands, Estée Lauder, which owns the majority of luxury cosmetics, and Prada, which own a small number of shoes and clothing brands. For
the sake of comparison, I have included the domestic Chinese jewelry maker, Chow Tai Fook. Bolded labels are those considered to be top luxury brands worldwide.

<table>
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<tr>
<td>Swatch</td>
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<tr>
<td>Prada</td>
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153 It should be noted that Prada also owns Marchesi 1824, a luxury café in Milan, but it is not relevant to the current study and was therefore excluded.
Luxury conglomerates do not provide revenue information for China individually, like automobile companies do, but rather for the Asia-Pacific region (excluding Japan). The following chart displays the revenue in thousands of Euros for LVMH, Richemont, Kering, Prada, Chow Tai Fook, and Estée Lauder. It should be noted that revenues for Chow Tai Fook and Estée Lauder have been converted to euros using end of year conversion rates for the Hong Kong Dollar and United States Dollar, respectively.

![Luxury Good Sales in Asia-Pacific Region](chart.png)

*Source: See Appendix A*

As one can see from the chart above, the luxury conglomerate with the most diversified portfolio, LVMH, had revenues almost double their closest competitor in 2013, and still held €2 million (US$2.2 million) more in revenues than Chow Tai Fook in 2015. LVMH’s diversified portfolio, with wines, spirits, cosmetics, jewelry, watches, clothing, and leather goods, allowed the company to successfully navigate the Asian-Pacific market, despite restrictions within China due to the government
crackdown. Parent companies like Prada and Estée Lauder, which have the least diversified portfolios, focusing all of its subsidiaries on only a specific category, like leather goods and clothing for Prada and cosmetics and fragrances for Estée Lauder. Prada started with around the same annual revenues as LVMH in 2010, but their lack of brand diversity prevented large increases in annual growth.

The above chart shows that, over the course of five years, the stagnation of Richemont annual revenues was not restricted to the Asia-Pacific market alone. Most interesting is the decrease in revenues from 2014 to 2015 in Europe. The chart also shows the rapid growth luxury brands experienced in Asia-pacific region. It should be noted that the decrease in sales revenue for Europe can be attributed to the addition of the Middle East and Africa Region to the 2015 Annual Report.

For Prada, the decrease in demand for conspicuous consumption, like products with large brand logos, hurt the brand’s annual sales drastically because

Source: See Appendix A
the brand had not expanded into other markets.154 After 2012, when the crackdown began, Prada’s sales decreased, despite growth, no matter how large or small, by all the other luxury conglomerates. This decrease in sales could be an indicator of a market trend in China that Prada has not yet grasped. As discussed in Chapter 2, some brands are providing more products in an affordable price range, in order to offset the decrease of sales experiences in elite luxury sales. The best example of this is in the sale of luxury watch brands providing watches in the US$1,600 to US$4,000 range, to offset decreases in sales of high-end watches.155

An interesting find within my research is the success of Chow Tai Fook, a Hong Kong owned jewelry maker, considered the largest in the world. The brand is not diversified in its products, selling only jewelry and watches. The success of Chow Tai Fook can be attributed to multiple factors, its ability to successfully market to Chinese consumers, its appeal among younger Chinese consumers, and its ability to avoid tariffs as a domestic company. An example of the brand’s ability to attract young consumers is the company’s recent Star Wars campaign, in which it is selling gold beads featuring Star Wars characters like BB8 or C3PO for its pendant bracelets.

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154 Prada sells shoes, clothing, handbags, and fragrances, and has not yet diversified its portfolio a manner similar to LVMH.
Luxury Automotive Industry

The Chinese car industry is rapidly expanding due to increasing numbers of Chinese citizens who possess a driver’s license. This increase had caused a proportional increase in the number of car deliveries and registrations. In the luxury car market, sales have almost doubled for all brands. The top luxury cars sales in China are attributed to Audi, BMW, Mercedes Benz and Porsche. Mercedez Benz and Porsche do not provide sales reports for China alone, unlike Audi, BMW, and Jaguar/Land Rover. As a consequence, the following research only features an analysis of unit sales for Audi, BMW, and Jaguar/Range Rover. In addition, it should be noted that automobile companies have not released their annual report for 2015, and the provided analysis of luxury automobile sales is just over a four-year period from 2010 to 2014.

As shown in the chart above, luxury car manufacturers in China have experienced unexpectedly high sales returns, and have been unaffected by the
measure in the crackdown regarding luxury vehicles. Audi has doubled its unit sales since 2010, from 227,938 units in 2010 to 578,931 units in 2014. In a similar manner, BMW also experienced an over 31 percent increase in unit sales from 2010 to 2014, from 183,328 to 456,732. Lastly, Jaguar/Land Rover is included to show that the increase in sales is across the board, even effecting smaller luxury automobile companies. Jaguar/Land Rover sales increased over 60 percent from 2010 to 2015, from 17,004 units to 103,077 units.

Summary
Using sales as an indicator of consumer preference, the data shows that Chinese affluent consumers still prefer to spend their money on high-end, luxury products. In the case of luxury retail, more diversified brands had greater market gains from 2010-2015 than brands that focuses on a particular field. The increase of

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revenues by LVMH and Chow Tai Fook, especially, show that Chinese consumers are still willing to purchase luxury products, and the growing middle class is responsible for the large annual percent increase in revenues for luxury companies. For the luxury automobile industry in China, luxury car sales have not only increased over the past four years, but have more than doubled in most cases. This increase in sales is a result of increasing car registration and increasing preference for higher-quality automobiles in China.
Conclusion

The luxury market has suffered in China since 2012 as a result of the government crackdown on corruption. Across the board, luxury brands and conglomerates have experienced low percent increases in sales, if not a reduction in sales. Despite this slowing of growth, international luxury brands continue to garner billions of dollars or euros in profit from the Chinese market, and from Chinese consumers purchasing abroad.

To combat the loss of their sales to government officials through practices such as gift giving, the luxury market is using new strategies to reach new customers. Luxury brands are expanding to the middle class in China. In terms of marketing, luxury brands are increasingly relying on Internet advertisement and customer engagement through sites and apps, like Weibo, WeChat, and Youku. These new brand strategies will assist luxury brands in increasing their sales to women and young adults.

The recent crackdown on corruption, extravagance and graft initially caused shocks in the luxury market, but over time the market recovered to its pre-2012 demand. Brands that are more diversified weathered the initial shock better than those that are specialized, but all have experienced the benefit of the Chinese consumers’ love of luxury. The crackdown has seen to have no effect over the average luxury consumer’s perception of purchasing or owning luxury goods, as can be seen in the increasing sales across the board for luxury products in China. There is also no evidence of any nationalistic shift of consumers to domestic goods;
American and European goods are still purchased at higher prices for what Chinese consumers perceived to be superior quality items.

**Limitation and future research**

Findings are limited by the lack of data available in regards to Chinese consumer preferences, and are further limited to the most well-known brands in China. The research seeks to expand the current research presented in this paper through the creation of a consumer survey in the future and a more expansive study of luxury advertisements in Chinese magazines through the analysis of more magazine types, venturing into technology and men's lifestyle magazines.

This paper broadens the theoretical research pertaining to conspicuous consumption in China proposed by placing the phenomenon in the context of Chinese politics. From a practical perspective, the paper's findings provide suggestions for further statistical research into conspicuous consumption in China. Gaining a better understanding of the behavior of Chinese consumers of luxury brands should benefit the luxury industry by increasing information in clientele in potentially the largest consumer market.
## Appendix A

### Reference Table for Chart 4.1

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Numbers represent units sold in each fiscal year.

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Numbers represent revenue in euros for each fiscal year.

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205 Ibid.
206 Ibid.

69
Appendix B: Elle China Yearly Statistics

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**Number of articles**

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### 2015 Statistics (n=58)

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**Western or Asian:**

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**Number of articles**

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### Overall Statistics (n=449)

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**Western or Asian:**

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**Type:**

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<td>7%</td>
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**Comparisons regarding models**

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