Double Master's Degree in Global Management and Chinese Politics

Chair of Political Risk Analysis

Luxury at Risk:

Political Risk Analysis of Gucci's

Presence in Contemporary China

SUPERVISOR

Prof. Manfredi Valeriani

CO-SUPERVISOR

Prof. Francesco Galietti

CANDIDATE

Chiara Moni

STUDENT NUMBER

776561

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INTRODUCTION

The luxury industry has long been considered a symbol of timeless stability, artisanal excellence, and social aspiration. However, in an era marked by geopolitical upheavals, trade tensions, and an increasingly fragmented international order, even this traditionally resilient sector finds itself exposed to a complex and evolving landscape of political risks. The global expansion of luxury brands, once driven by optimism, consumer appetite, and the promises of emerging markets, has rendered them more vulnerable than ever to regulatory shifts, nationalistic policies, diplomatic frictions, and abrupt policy changes. Among these, one country stands out as essential to and deeply challenging for the luxury business: China.

This thesis explores the nature and implications of political risk for the luxury sector, with a specific focus on Gucci as a case study. While political risk has historically been associated with emerging or unstable states, often reduced to scenarios such as coups, expropriations, or violent unrest, its contemporary manifestations are far more nuanced and widespread. Indeed, China presents a unique political environment in which centralized authority, censorship, and a heightened sensitivity to national pride combine to create significant reputational and operational exposure for foreign brands. The case of Gucci offers a compelling lens through which to examine how a leading global luxury house navigates this context, balancing market opportunity with political risk. At the core of this research lies the definition and conceptualization of political risk itself. Far from being a uniform phenomenon, political risk encompasses a spectrum of threats ranging from macro-level instability and shifts in government policy to micro-level disruptions such as local administrative decisions, regulatory enforcement, and politically charged consumer backlash. For luxury brands, the stakes are particularly high. Their business model is built on image, trust, and exclusivity, which makes them uniquely sensitive to reputational threats. Political risk, especially when amplified by social media and global visibility, can thus have immediate consequences not only on market access but also on brand equity.

Understanding this, the first part of the thesis defines political risk in its broadest terms, drawing on authors such as Bremmer and McKellar to establish a framework for analysis. Particular attention is given to the types of political risk most relevant to luxury businesses, distinguishing between country-level risks, arising from the political environment of the host country, and firm-level risks, which are more specific and situational. This section also outlines why luxury brands are especially exposed, considering factors such as their symbolic value, global positioning, reliance on reputation, and limited tolerance for operational disruption.

The second chapter comprehends a vertical analysis of China's country context, and charts the rise of China's luxury market and its current dynamics. It reviews the factors behind the boom in Chinese luxury consumption, from the economic reforms and expansion of the middle class to the influence of digital innovation (such as e-commerce and social media) and the emergence of competitive local luxury brands (the guochao trend). By outlining these developments, this chapter underscores the importance of China to global luxury houses and sets the stage for the subsequent analysis of political risks.

Chapter three then examines China's political and regulatory risk environment for luxury firms. It identifies and analyzes key sources of risk, including the country's authoritarian governance model, shifting regulatory policies, nationalist public sentiment, and broader geopolitical tensions. This chapter illustrates how certain events can impact luxury consumption. By constructing this risk landscape, this chapter highlights the potential flashpoints that international luxury brands such as Gucci must anticipate and navigate in China.

Furthermore, chapter four narrows the focus to Gucci as a company, examining its operations and strategy in China. This case-study chapter recounts Gucci's background and expansion in the Chinese market and analyzes its current positioning through tools such as PESTEL (to assess the external environment) and SWOT (to evaluate Gucci's internal strengths and weaknesses relative to opportunities and threats in China). In doing so, this highlights Gucci's strategic priorities and inherent vulnerabilities in China, providing context for the subsequent risk analysis.

Finally, chapter five constitutes the empirical core of the thesis. It begins by outlining the research methodology, including the data collected and a series of interviews conducted with key experts in the luxury sector. These interviews provide qualitative insights into how industry leaders perceive and manage political risk. The chapter then introduces analytical tools to evaluate the probability and impact of the risks identified for Gucci in China. Using these tools, the study integrates quantitative data with expert input to prioritize the most significant risks. Building on this, chapter five also contains a scenario analysis useful for planning and exploring possible future developments. Based on the insights of this analysis, the fifth chapter ends with recommendations for Gucci, specifically, and for Western luxury brands in general.

The thesis establishes that luxury brands need to treat political risk as their fundamental strategic priority instead of considering it as an outside matter. The research proves that the current interconnected global economy with its focus on image makes China's market risks including political and regulatory and reputational threats which can rapidly develop into worldwide crises. The case of Gucci demonstrates that active risk management serves as a fundamental business requirement which determines both the future direction and brand identity and operational stability of luxury companies.

CHAPTER I: POLITICAL RISK IN THE LUXURY SECTOR

1.1. Definition and conceptualization of Political Risk

Before speaking about political risk, it is useful to understand what is meant by the term "risk."
Over the years, the concept of risk has taken on different meanings and has also been addressed by different fields, being placed now in philosophical, now in economic contexts. In many cases, the concepts of risk and uncertainty are configured as opposites, separate and distinguishable; in other situations, instead, they appear closely intertwined and indistinguishable.

The American economist F. Knight highlights a clear distinction between risk and uncertainty in his work *Risk, Uncertainty and Profit* (1921), in which he explains that "Uncertainty must be taken in a sense radically distinct from the familiar notion of Risk, from which it has never been properly separated" (Knight, 1921). According to Knight, in fact, the concept of risk is confined to those cases in which the event can be studied objectively on a probabilistic basis, that is, when it is possible to associate a probability of occurrence to each scenario and from this subsequently create a decision-making criterion. Instead, we speak of uncertainty when the event is not predictable, therefore it is not possible to associate a probability of occurrence to the event. This scenario forces an individual to make decisions on a subjective basis.

Doug Hubbard, like F. Knight, distinguishes uncertainty and risk using Decision Theory. Uncertainty is, according to the scholar, a lack of certainty, a state of limited knowledge in which it is impossible to describe exactly the existing state, future results, or more than one possible result (Douglas, 2007). Risk appears, instead, as a state of uncertainty in which some possible outcomes cause an undesired effect or a significant loss.

In clear contrast to what has been said above, we find the English statistician Dennis Lindley, who rejects any possible distinction between risk and uncertainty, believing that there is only one type of uncertainty, measurable by probabilities that reflect the degrees of confidence that the subject places in the various events.

More normative and official are instead the definitions of risk given by the PMBOK and the one found within the guidelines of the UNI ISO 31000 standard.
The PMBOK defines risk in the following way: “A risk represents an uncertain event or condition that, if it occurs, would have a positive or negative effect on at least one of the project objectives” (Project Management Institute, 2017, p. 238).

In the UNI ISO 31000 standard, the term risk is instead defined as: Effect of uncertainty in relation to objectives (International Organization for Standardization, 2018, p. 3). Where the effect can be positive, negative, or of both signs, and can confront, create, or have as a cascading result further new opportunities and threats.
According to the OHSAS 18001, 3.4), risk is defined as a combination of the probability and the consequences of the occurrence of a specific hazardous event.
The two standards provide two different definitions of risk. This is due to the fact that the context and the object being addressed vary.

The UNI ISO 31000 standard is a guideline that provides principles and general guidelines for risk management, which implies that it is treated under various aspects, that is, both as a positive and negative event. The OHSAS 18001, instead, refers to a management system for the safety and health of workers, which leads one to think that risk is treated exclusively as a negative event.

A further valuable perspective on political risk is provided by Robert McKellar, who defines it as "potential harm to a business operation arising from political behavior" (McKellar, 2010, p.3). McKellar emphasizes three core elements: risk, harm, and political behavior. According to his interpretation, risk involves the likelihood and impact of specific events, stressing the independence of these two variables: a highly impactful event with negligible probability carries limited overall severity, just as a highly probable but minimally impactful event does not constitute significant risk. Harm, in this context, extends beyond immediate financial loss, encompassing damage to reputation, employee morale, and broader business capabilities. Finally, political behavior refers to actions intended to influence the social or political order – maintaining, altering, or strategically leveraging it for interests – and can originate not only from governments but also from non-state actors such as social movements, insurgent groups, or even multinational companies themselves. This broad and nuanced interpretation underlines how political risk is not confined solely to overt government actions but also includes subtle shifts in political climates and stakeholder attitudes, thereby posing unique challenges for international firms, particularly in sectors sensitive to reputation and image, such as luxury brands (McKellar, 2010).

The definitions mentioned view risk as a purely negative phenomenon. However, there has been no lack of authors who, beyond considering the unfavorable eventuality in the notion of risk, also consider the favorable one, that is, the possibility that results better than those expected may occur.

Risk, therefore, is unilateral if the only possible effect is negative, while it is bilateral if the effects can be both positive and negative on the profitability of the company. A more economic treatment of risk is provided by the economist and professor of the Harvard Business School Robert Simons, who defines risk as: "an unexpected event or set of conditions that significantly reduces the intended business strategy"(Simons & Houghton, 2007, p. 323).

In this context, political risk analysis involves assessing and forecasting potential threats that may arise from shifts in political, social, and economic dynamics. This type of risk is not limited to developing countries; indeed, Western nations themselves, historically considered more stable, are subject to financial, operational, geopolitical, and digital risks. Therefore, it is essential for companies, especially those operating in international markets, to implement a comprehensive political risk analysis to ensure the long-term security of investments and operations.

Over the past three decades, the geopolitical landscape and political risk dynamics have evolved significantly. From the end of the Cold War to increasing globalization, it was often assumed that the world was moving toward greater political stability. However, events such as 9/11, the 2008 financial crisis, and recent pandemic challenges have demonstrated just how optimistic this prediction was.

Today, in a world characterized by political uncertainty, geopolitical tensions, and increasingly sophisticated digital threats, political risk has once again become a priority for companies and institutions operating globally (Kuldova, Østbø, & Raymen, 2024, p. 16).

Once, political risk was relatively easy to define: it almost always involved the nationalization of assets owned by foreign companies by dictators. Today, a wide range of other actors has emerged: citizens filming videos with their mobile phones, local authorities issuing ordinances, terrorist attacks with trucks, cybercrime, and so on. Supply chains are longer and therefore more vulnerable, and the geopolitical landscape is more crowded and uncertain.

But the fact that we do not know from which direction political risks will appear does not mean that we cannot prepare to face them; after all, effective risk management still has rather simple and clear outlines. Leading companies in this area excel in four key competencies: understanding, analyzing, minimizing risk, and dealing with crises.

The definition of political risk presents numerous problems, both methodological and substantive. In principle, there is no universally shared definition (Thomas, 2007, p. 42).

In the academic field and even more so in the technical field, of what political risk is and how it is measurable.

In particular, beyond general definitions, it is important to examine how various scholars, and even more importantly, the various agencies and institutions that conduct political risk analysis, define it based on the variables and components of the various analytical models developed. To this end, we will analyze both theoretical definitions and some important analytical models, to draw some general guidelines on what political risk is (Robock, 1971).

As anticipated, political risk analysis was born and developed primarily to support international trade and foreign investment. It arises from the need to have a clear picture of the current situation at a given time in a given country and to identify, through forecasts, possible changes in the country's situation, primarily to avoid losses in profits from foreign investments. Therefore, political risk analysis, through scientific analysis and methodologies, serves to minimize the negative consequences resulting from political decisions and initiatives in a country, in an international environment where the economic and political spheres are increasingly interconnected. Furthermore, political risk analysis, through specific political indicators, can reveal opportunities and trends that economic indicators rarely can (Weston & Sorge, 1972, p. 48). In any case, political risk analysis aims to underscore the importance of political structures and procedures in developing

strategic decisions, including in economic matters. Here, the importance of political risk analysis for economic and financial analysts is evident. It is clear that, without an appropriate analysis of political risk, any economic and financial analyses of a given country would be absolutely incomplete. Political risks have had and have a variety of definitions. In fact, the definition we give to political risks depends largely on our perspective, that is, what objective our analysis is aimed at and what phenomenon or action we are supporting our analysis. In fact, as we will see later, the variables that make up the political risk category change depending on the subject/object of the analysis itself.
In general terms, Weston and Sorge state that "political risks arise from actions of national governments that intervene in, or prevent, financial transactions, or change the terms of agreements, or cause the confiscation of all or part of the property of foreign businesses" (Weston & Sorge, 1972, p. 70). This definition focuses mainly on the actions of governments and/or political elites of a given country. As reported by Kobrin, another group of authors such as Green, Van Agtmael, Zink, Daniels, Dimsza, associate political risks both with environmental factors that hinder or obstruct investments, such as political instability and violence, and with factors that limit transactions such as expropriations, financial discrimination (Kobrin, 1979).
Robock states that "political risks in international business exist: 1) when there are discontinuities in the business sphere 2) when these are difficult to anticipate and 3) when they are the result of a political change. In order to be considered risks, these changes must have the potential to have significant effects on the profits or other objectives of a particular company" (Robock, 1971).

For Haendell, on the other hand, political risk is "the risk or probability of the occurrence of political events that will change the profit prospects of a given investment" (Haendel, 1979, p. 5).

Root perhaps offers one of the most complete definitions, both from the point of view of substantive content and methodological approach, describing the relationship between political risk and other types of risks. For Root, political risk is the possibility that a political event of any kind (war, revolution, coup d'état, expropriation, taxation, devaluation, import restrictions) at the national level or abroad, causes a loss of profit and/or the organizational setup of an international economic actor (Root, 1972, p. 335). A political event (as opposed to an economic or social one) results from a governmental action or from an action of a political authority of a nation. Root introduces the difference between political/economic risks and political/social risks: “Political/economic risks are associated with the actions of governments that are primarily responsible for unforeseen/unanticipated external or internal changes in the nation’s economy. Political/social risks arise from governmental responses to non-economic changes in the society of a nation.” In relation to the difference between political risks and other categories of risks, in particular economic ones, Gori mentions various authors such as Robock, Parvin, Kobrin and Drobnick who highlight how it is generally accepted that economic and political factors are interdependent, although an operational division in the analysis of risks is necessary.

Schollhammer in fact states that a distinction is necessary since political risks arise from changes in anticipated public policies while economic changes are associated with changes in the market, competition and technological factors that decrease the effectiveness of a company and its potential profits. Furthermore, the actors responsible for political risks are more easily identifiable than the forces responsible for economic risks.

In this perspective, the contribution of Smith Warrick is also important. He proposes a division of political risks into three categories: traditional political risks, regulatory risks and quasi-commercial risks (Gori, 1988, p. 12).

Traditional political risks include risks related to expropriations, currency conversion and currency transfers, political violence (war, sabotage, terrorism). Regulatory risks concern changes in the regulatory framework not previously anticipated. In this category is included the taxation of foreign investments applicable to the entire nation or to specific economic and industrial sectors.

Finally, quasi-commercial risks reflect the risks that arise when a project has as counterpart state-controlled clients or suppliers whose ability or willingness to fulfil contracts is uncertain to fulfil contracts is quite doubtful (Smith, 1998).

It is important to note how, despite the difference of approaches in the definitions of the concept of political risk proposed so far, a common denominator emerges, namely the acceptance that political risk involves the risk of a change in the political situation in a country that has effects not originally foreseen on foreign investments or, in other terms, that political risk involves unforeseen/undesired consequences on investments as a consequence of political events.

It must however be considered that, beyond the theoretical aspect, particular importance is held by the operational definitions that are given to political risk. In the next Chapter, the analysis models of some important institutions and agencies will be examined, developing their definition of political risk based on the variables used in the analysis.

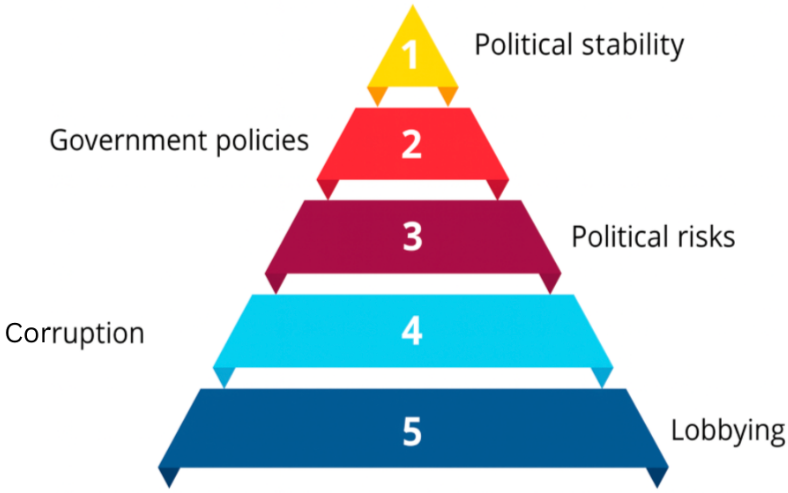

Figure 1: Political factors as key determinants of business sustainability and growth

Over time, risk has become a strategic lever of fundamental importance for both corporate and non-corporate organizations.

Its main purpose is to allow the creation and protection of corporate value by analyzing in detail every uncertain event that could either damage or promote the achievement of the set objective.

Risk, as a tool for creating and protecting corporate value, drives organizations to thoroughly study the internal and external context in which they operate in order to analyze the possible threats and opportunities dictated by the interconnections of business activity (Kuldova, Østbø, & Raymen, 2024, p. 35).

Although it is seen as a strategic component, in some cases there is the possibility of associating a constraint with the risk management process aimed at slowing down business growth, caused by continuous changes in business strategies.

In reality, risk management should not represent an obstacle for the organization but a tool to quickly identify the possible threats and opportunities that revolve around it in order to create or protect value.
The third point refers to the link between risk and business objectives. As reported in point 1, the creation of business value is based on the minimization of threats and the maximization of opportunities (Kuldova, Østbø, & Raymen, 2024, p. 35).

Seeing risk as an uncertain event and not as a certain event, organizations reluctant to manage it could compromise the achievement of their objectives since the uncertain event could later, if not managed, turn into a certain event, that is, into a problem.
Anticipating the emergence of the certain event could make the difference between the failure or success of a business project, and correct risk management also requires the temporal understanding of the uncertain event.
Risk, as said previously, is an uncertain event, that is, an event that does not yet exist in the present and, once a probability of occurrence is assigned to it, may never manifest itself. The occurrence or not of the uncertain event is dictated by the manifestation of a series of current and/or future circumstances that will have such an impact as to modify the corporate context. And it is precisely this concept that makes the project unique. The risk management process allows the future to be translated into the present, analyzing both the context and the uncertain events, also taking into account the possible deviations that this translation causes. During the translation of the future into the present, not only are the uncertain events analyzed but also the (positive or negative) impact that they cause, allowing the organization to limit obstacles to achieving the set objectives. Another aspect of risk concerns the individuals responsible for its management. Human aspects such as the degree of perception, propensity and tolerance, as well as the determination of critical thresholds for risk acceptance, are of fundamental importance in the discussion of the risk management and analysis process.

1.2. Types of political risk relevant to luxury businesses

A luxury good refers to a superfluous consumer good that represents an excessive expenditure compared to someone's financial means (Bremmer & Keat, 2009). Luxury goods are often objects of admiration and desire, and their exchange value is very high.

It is not easy to identify and define the goods that belong to this category because, as we have seen, they can be considered a multitude of different dimensions. However, some indicators have been defined that allow us to identify the typical elements of exclusivity.

Political risk for Italian luxury companies is an aspect that should not be underestimated, as it impacts their stability and profitability. Luxury companies, which operate in a global market and depend on consumer trust, are particularly vulnerable to political events, both nationally and internationally (Thomas, 2007, p. 123).

The nature of risk can be analyzed through two schools of thought:

1. Risk as an objective fact
2. Risk as a subjective construction

The main characteristic of risk as an objective fact lies in the awareness that risks exist independently of the analyst’s perception and that, through the use of mathematical methods and models, it is possible to increase the degree of description of the risks inherent in the project (Robock, 1971).

The objectivity promoted by this school of thought ensures that risk management takes place through a standardized process based on mathematical models that impact the entire risk management process, guaranteeing a truthful final result based on rational decisions.

In the case of the subjectivist description of risk, on the other hand, it is believed that it is not possible to ignore the human factor in the identification process during which risks are identified, and different weights are assigned depending on the observer’s degree of risk propensity.

In this second case, the role assumed by the observer causes the range of action during the risk identification process to increase, considering not only first-level risks, that is, those dictated by the normal organizational process, but also second-level risks, that is, those based also on interpersonal relationships (Weston & Sorge, 1972, p. 86).

A subjective approach gives greater emphasis to experiential behaviors based on psychological factors, reducing the importance of a probabilistic approach to risk. By basing decision-making behavior on experiential and psychological factors, it is possible to obtain, depending on the observer, different identifications. According to the American psychologist Paul Slovic, the perception of risk depends on two mental approaches: the analytical approach and the experiential approach (Weston & Sorge, 1972, p. 87).

The analytical approach makes it possible to identify, analyze, and assess risk slowly, based on mathematical models that exploit the concept of probability to extrapolate as much information as possible from the uncertain event.

The experiential system guarantees a faster and more intuitive evaluation based on personal feelings and past experiences. Compared to the analytical one, the experiential approach remains the most natural model for a risk management process.

This simple distinction of risk as an objective or subjective factor is not limited to theory alone but has repercussions on the entire risk management process since, in relation to the theoretical concept inherent to the individual in charge of the process, for the same project it is possible to obtain different representations of risk.

Facing and managing risk represents the implementation of tools and methodologies aimed at managing uncertainty (Vitali, Glattfelder, & Battiston, 2011, p. 35).

The reasons why it is considered a fundamental process within organizations can be summarized in three points:

3. It does not limit itself to identifying relevant uncertainty but promotes the creation of value by minimizing threats and maximizing opportunities.
4. It represents a training process for the risk manager.
5. Given the peculiarity of complex projects, namely uniqueness, analyzing the creation of value during a risk management process is a topic that still generates conflicts in the literature.

What can be demonstrated, however, is that the increase in skills in carrying out the risk management process is directly proportional to an increase in success in terms of achieving objectives.

Despite the role that risk management plays within organizations, they very often continue to see their projects fail in terms of achieving objectives. This happens because the task of risk management is not to transform uncertain events into certain events, but rather to train individuals in the prediction and management of uncertain events (Kuldova, Østbø, & Raymen, 2024, p. 66).

In the previous paragraph, the general nature of risk was analysed, outlining its origin and definitions. What was not mentioned is the importance of their classification. Not all risks can be managed or measured in the same way; consequently, their classification allows one to identify and characterize the relevant corporate context. Below, some ways of classifying risks will be listed, in order to observe the different nuances that they acquire in conjunction with a given field or specific context (Giorgino, 2015, p. 50).

Core Risks and Non-core Risks

In relation to their closeness to the company's business, we can distinguish between core risks and non-core risks.

Core risks are inherent to the type of activity carried out by the company. These risks must be managed and cannot be transferred. They must be managed through strategic and business choices.

Non-core risks, on the other hand, depend on the activity carried out but do not refer to relavant business processes.

Diversifiable Risks and Systematic Risks

In relation to the possibility of reducing the impact, we can distinguish between diversifiable risks and systematic risks.

A risk is considered diversifiable if, after a diversification process, the value of the overall business risk decreases.

All those risks that do not benefit from the property of mitigation after a diversification process are called systematic risks (Vitali, Glattfelder, & Battiston, 2011, p. 62).

In relation to the nature of risk factors, we can identify:

Strategic Risks:

These refer to all those factors that can compromise the strategic operations and business sustainability in the short, medium, and long term.

Examples of strategic risks are risk of concentration of the customer or supplier portfolio and reputational risk (Thomas, 2007, p. 136).

Operational Risks:

Operational risk means the risk of losses resulting from the inadequacy or dysfunction of procedures, human resources, and internal systems, or from exogenous events.

Financial Risks:
These refer to all those risk factors that interact with corporate finance, particularly its liquidity. Generally, among financial risks it is possible to find:
• Market risk
• Credit risk
• Liquidity risk
Market risk consists in the possibility that changes in exchange rates, interest rates, or commodity prices may negatively affect the value of assets, liabilities, or expected cash flows.
Credit risk represents the company's exposure to potential losses resulting from the counterparty's failure to fulfill its obligations.
Liquidity risk is the risk that the company may not be able to meet its payment obligations due to the difficulty in finding funds (funding liquidity risk) or in liquidating assets on the market (asset liquidity risk). The consequence of the occurrence of this event is a negative impact on the economic result in the case where the company is forced to bear additional costs to meet its commitments or, as an extreme consequence, a situation of insolvency that puts business continuity at risk (Weston & Sorge, 1972, p. 141).

Compliance Risks (or non-compliance risks):
The risk of non-compliance with rules is the risk of incurring judicial or administrative sanctions, significant financial losses, or reputational damage as a result of violations of laws, regulations, or self-regulation rules or codes of conduct.

1.3. Country vs. Firm-level Risks

The luxury sector, historically driven by globalization, faces a new reality marked by the rise of nationalist policies. This paradigm shift, evident in countries such as the United States and China, represents a significant challenge for brands that have relied on access to international markets and the free movement of goods and capital.
Luxury companies face various challenges, namely national and international risks.
Among the national risks are (Kuldova, Østbø, & Raymen, 2024, p. 80):

Sovereign risk
Ability and willingness of a foreign debtor government to honor its payment obligations.

Political risk
Events that are not economic in nature, but stem from wars, institutional changes, or unilateral actions by governments (expropriations or nationalizations).

Economic risk
Variables that directly influence development rates (coherence of economic policy objectives, degree of economic openness, etc.).

Transfer risk
Possible decisions by political or monetary authorities to impose restrictions on capital movements and the repatriation of dividends and profits.

Exchange rate risk
Unexpected currency fluctuations or the transition from one exchange rate regime to another.

Position risk
A type of risk relevant in globalization; it concerns the so-called "contagion" from neighbouring/similar countries in terms of political or economic characteristics.

Regarding political risks at the international level, it is possible to identify three main categories of political risk:

Expropriation risk refers to losses attributable to measures, undertaken or approved by the foreign government, that deprive the investor of ownership or control of their investment (e.g. creeping expropriation as in the Sakhalin Project or recent events in Russia) (Vitali, Glattfelder, & Battiston, 2011, p. 90).

Transfer risk refers to the inability to convert local currency (capital, interest, profits, royalties, and other remittances) into hard currency for transfer outside the country (e.g. Venezuela and the CADIVI system or currency restrictions in Egypt and Tunisia).

Political violence risk refers to losses resulting from the damage, destruction, or disappearance of physical assets due to acts of war or civil unrest in the foreign country,

such as revolutions, coups d'état, insurrections, acts of sabotage or terrorism (e.g. the Arab Spring of 2011, the conflict in Ukraine) (Robock, 1971).
To the impact of political risk is also added geopolitical risk linked to geographical positioning, adherence to political and commercial agreements, adoption of sanctions, etc.
Trade tensions are one of the main risks for the industry. Protectionist policies, such as higher tariffs and import restrictions, can make luxury goods more expensive in certain markets. This could reduce demand for international brands in key regions, directly affecting their revenues and their ability to operate globally (Vitali, Glattfelder, & Battiston, 2011, p. 104).

Another critical aspect is the loss of access to efficient supply chains.
Nationalist policies can encourage local production, limiting luxury brands' ability to source exclusive materials or work with specialized artisans around the world. This not only affects product quality but also increases production costs (Thomas, 2007, p. 148).
Furthermore, the rise of nationalism can change consumer preferences. In a context where policies promote the consumption of domestic products, global brands may face a decline in popularity and loyalty among buyers. This forces companies to adapt their marketing strategies and create narratives that highlight their relevance in local markets.
The geopolitical impact also plays an important role. Rising tensions between major powers can generate uncertainty in key markets. For example, the rivalry between the United States and China not only affects trade relations but can also influence the perception of Western brands in Asia and vice versa.
Another risk is the reduction in foreign investment. Nationalist policies can discourage the international expansion of luxury brands, limiting their ability to open new stores or establish strategic partnerships in emerging markets. This could hinder the sector's growth at a time when new opportunities are needed.

Brands' financial sustainability is also at stake. With a more fragmented economic landscape, companies must invest more in adapting their operations and overcoming regulatory barriers. These measures can impact profit margins and force brands to reconsider their strategic priorities (Kuldova, Østbø, & Raymen, 2024, p. 105).

The geopolitical tensions triggered by the conflict between Russia and Ukraine are casting new shadows on the global economy, which is still grappling with the long-term effects of Covid and the resulting supply shortages of raw materials.

Among the effects of this constantly evolving scenario, particularly in Europe, is the sharp rise in prices that is impacting the operations of businesses along the entire value chain and the spending power of households (Vitali, Glattfelder, & Battiston, 2011, p. 133).
However, luxury brands also have the capacity to adapt. Some are exploring collaborations with local producers and adjusting their strategies to align with nationalist demands. While this poses certain challenges, it can also open up new opportunities to connect with audiences who value authenticity and patriotism.

The rise of nationalist politics represents a significant shift in the global environment that has defined the success of the luxury industry. Adapting to this new reality will be essential for brands to not only survive but also thrive in a constantly evolving context.

1.4. Why are luxury brands vulnerable

The luxury sector now operates on a global scale (McKinsey & Company & Business of Fashion, 2025). Alongside already stable and mature markets such as Europe and North America, the so-called BRIC countries (Brazil, Russia, India, China) are gaining increasing importance, united by a developing economic situation, vast territory, continuously growing population, and GDP growth. In 2018, the market reached €920 billion and a growth of 4–5% per year is expected until 2025.
The data provided by Bain & Co. in the "*Luxury Goods Worldwide Market Study*", written for the Altagamma foundation, can be summarized as follows (McKinsey & Company, 2024):

- Europe remains the first region for sales with growth equal to €84 billion, slowed, however, by a contraction that occurred in the tourism sector. In this context, France remains one of the driving countries of the sector both in terms of production and sales.

- Sales in America registered an increase of 5%. Canada and Mexico maintained a strong position in the market while the political situation in Brazil negatively influenced performance.
- In Japan, growth slowed compared to 2017 but still stands around 6%. Purchases by tourists had a significant impact;
- China is the leader in growth, holding a share equal to 33% of global spending in the luxury sector;
- In the rest of the Asian region, sales rose to €39 billion, driven by Singapore, Taiwan, and South Korea.

From the document, it is also clear that individuals belonging to Generations Y and Z contributed to the growth of all luxury segments, representing 47% of consumers in the sector.

Therefore, the market, to respond to the needs of younger generations, is evolving in terms of offering, communication, and customer engagement strategies. Generation Z youth also have markedly different preferences compared to previous generations, preferring products that are able to highlight the uniqueness of personality and purchases in physical stores.

The industry is also shifting its attention to new trends in cultural recognition and inclusivity of all body types.

Examples are the creation of "less revealing" lines specifically designed for Muslim women and others designed to enhance all types of body shapes (Weston & Sorge, 1972, p. 179).

In another study commissioned by Altagamma to Boston Consulting Group, the trends on which the evolution of the sector will be based up to 2025 were identified. Below are the main points:

- Values such as exclusivity, craftsmanship, and elegance regain importance compared to brand recognition and aesthetics.
- The "made in" remains a fundamental characteristic for consumers. Leading all is "made in Italy" followed by "made in France" (Weston & Sorge, 1972, p. 179).
- Collaborations and special editions: the best-selling one so far is that between Louis Vuitton and Supreme.
- The male segment is increasingly relevant.

- Consumption is influenced by “Brand Advocacy” both physical and online.
- Product sustainability influences about 60% of luxury purchases.

Despite this, the luxury sector is configured as vulnerable (Sheffi, 2005, pp. 77–78).
Luxury brands are globally renowned for their craftsmanship, exclusivity, and, above all, their high price point. With such a significant resale value, luxury goods naturally become a prime target for theft. From high-end fashion and accessories to watches, perfumes, and homeware, luxury retailers are committed to offering customers an opulent shopping experience – one defined by elegant interiors, visually captivating displays, and lavish décor that reinforces the aura of sophistication.
Despite recent headlines involving high-profile robberies and break-ins at luxury boutiques and department stores, consumers still expect a personalized and exclusive shopping journey – free from overt wires, visible security systems, and heavy surveillance.

Yet this pursuit of aesthetic perfection often comes at the cost of security. Even though the luxury goods market recorded a nearly 9% increase in demand in 2023 – surpassing inflation – luxury retailers often operate with limited staff and insufficient protection against theft and organized crime. Walking past boutiques such as Louis Vuitton, Chanel, or Gucci, one often notices just one or two employees inside, minimal visible security, and a store that appears nearly empty (Sheffi, 2005, pp. 79–82).
Current security strategies employed by luxury retailers are predominantly reactive. They include limiting the number of clients inside the store at one time, using high-resolution surveillance systems, employing RFID tagging technology, and ensuring comprehensive insurance coverage.

While these measures help identify perpetrators post-event, they do little to prevent crime proactively. This reactive approach stems in part from four key concerns: the need to preserve a customer-friendly ambiance, the imperative to protect brand image, legal and privacy considerations, and a widespread lack of awareness among executives regarding the evolving threat landscape. However, these operational vulnerabilities also reflect a broader systemic fragility when viewed through the lens of political risk. In fact, luxury brands’ sensitivity to sociopolitical dynamics, regulatory shifts, and law enforcement capabilities in their host countries makes them particularly exposed. Expropriation, transfer restrictions, civil unrest, or weakened institutional response can all magnify the risks already inherent in luxury retail operations (Kuldova, Østbø, & Raymen, 2024, p. 113). The vulnerability of luxury brands is therefore not only economic or criminal in nature but also political. For example, political violence – such as protests, insurrections, or riots – can quickly spill into commercial areas, damaging flagship stores and endangering staff and clients. Regulatory instability may affect cross-border payments or the import/export of luxury items. Currency volatility, often tied to political mismanagement or sanctions, can harm revenues or raise operational costs. In countries where governance is weak or institutions are captured by elite interests, the risk of inaction by law enforcement further increases exposure to criminal networks (Thomas, 2007, p. 161). Moreover, luxury brands are high-profile symbols of wealth, often perceived as culturally or politically charged targets. In certain political climates, they can become focal points for resentment, protest, or ideological opposition, leading to direct attacks or government scrutiny. The geopolitical positioning of a brand, including its origin, international alliances, or public stance on global events, can also invite boycotts, sanctions, or reputational risk in polarized environments. To mitigate such vulnerabilities, it is imperative that luxury brands move beyond isolated security tactics and adopt a broader political risk strategy. Strengthening collaboration with law enforcement, investing in geopolitical intelligence, ensuring regulatory compliance, and understanding the local political climate are essential. Only by integrating political risk into loss prevention and strategic planning can luxury retailers effectively safeguard both their physical assets and their brand integrity in an increasingly unstable global landscape (Robock, 1971).

1.5. Political risk in developed markets: why not just emerging countries?

Political risk analysis has traditionally been associated with emerging or developing economies, which were seen as more prone to sudden political upheavals and instability. However, this long-held view has been increasingly challenged by events in advanced economies over the past two decades. High-profile political shocks in developed countries – from the 2016 Brexit referendum in the United Kingdom to unexpected policy shifts under the Trump administration in the United States – have demonstrated that even mature markets can experience destabilizing political uncertainty with global repercussions. These incidents underscore that developed nations are not immune to political risk, and in some cases their political events can trigger widespread financial volatility due to the outsized role of major economies in the world system (Ben Ghozzi & Chaibi, 2022, p. 2-4). As one investment analyst sharply observed, there are "profound political risk in developed markets" today, and it is misguided to assume that *only* emerging markets face such threats (Fine, 2024).

Indeed, scholars and market practitioners now argue that studying political risk in developed markets is just as critical as in developing ones. Political uncertainty has become a central factor even in advanced economies, fueled by rising populism, trade protectionism, and geopolitical tensions in recent years (Alon & Herbert, 2009, p.127-131). Taimur Hyat (2019) of PGIM, for example, notes that political risk in developed markets has grown "even more central" to investment analysis, urging investors to integrate political risk assessment into their evaluations of G7/G8 countries as a core aspect of due diligence (Kovarsky & McCaffrey, 2019). In other words, even traditionally stable markets require careful political risk evaluation – whether assessing the impact of elections, regulatory changes, or international disputes – to fully understand an asset's long-term risk-return profile. Neglecting political risk in these markets can leave investors and policymakers blindsided by events that fall outside purely economic models, as evidenced when many were caught off-guard by the Brexit vote and had to scramble to assess their exposure. The perception that "EM has all the political risk" is thus increasingly outdated, and experts flatly reject the notion that developed markets are politically risk-free (Fine, 2024). On the contrary, political stability in advanced democracies can no longer be taken for granted, warranting systematic risk assessment just as in emerging economies.

Emerging research provides empirical support for this shift in perspective. Comparative analyses of stock markets find that political risk is "priced" into both emerging and developed markets, affecting returns and volatility in both contexts. Notably, one study covering 46 countries over 1995–2019 shows that changes in a country's political risk level can lead to significantly higher market volatility in developed economies (Ben Ghozzi & Chaibi, 2022, p. 2-6).. This implies that investors in New York, London or Tokyo may see their portfolios swing with the tides of political news, much as investors in Nairobi or Jakarta do. Furthermore, while it's true that developing states tend to face a greater number of chronic political problems (e.g. institutional weaknesses or frequent government crises), advanced economies are still vulnerable to acute political shocks – such as sudden outbreaks of civil unrest or terrorism – which can disrupt markets. Research by Waszkiewicz (2016) confirms that although richer countries generally exhibit lower baseline political risk, they remain susceptible to certain forms of political violence and instability. Additionally, because developed markets are highly integrated globally, any political turmoil in a major economy can be rapidly transmitted across financial systems, amplifying its impact. All these insights reinforce the importance of broadening political risk assessment to include developed nations. In sum, political risk is a relevant factor on both sides of the development divide, and a comprehensive risk analysis framework in today's interconnected world must extend beyond emerging markets to encompass the complex political dynamics of developed economies (Kovarsky & McCaffrey, 2019). This balanced approach enables scholars and practitioners to better anticipate and manage the full spectrum of risks that can affect investments and economic stability in any market, be it emerging or advanced.

CHAPTER II: CHINA’S COUNTRY PROFILE

2.1. Evolution of luxury consumption in China

2.1.1. 90’s Reforms

China’s journey from austere socialism to a major luxury market has been swift and complex. For much of the Mao era (1949–1976), conspicuous consumption was ideologically shunned in favor of collective well-being, but Deng Xiaoping’s reforms in the late 1970s famously declared that “to get rich is glorious,” legitimizing wealth accumulation and opening the door to luxury lifestyles. By the 1990s, Western luxury brands like Dior and Versace began entering China’s nascent market, catering to a small elite (Chernov & Gura, 2024, p.3). Early consumption of high-end goods was often tied to social status and mianzi (*face*), as well as *guanxi* (networks), where gifting luxury items could cement prestige and relationships. Studies noted that many Chinese consumers initially bought luxury goods less for craftsmanship and more to “buy into” a sense of belonging and status (Antioco, 2025). China implemented extensive pro-market reforms between 1980 and 1990 which converted its planned economy into an open market-based system. The economic reforms established a favorable environment for growth which brought in substantial foreign capital and developed an affluent urban population that welcomed international luxury brands when they entered China during the 1990s. The Law on Sino-Foreign Equity Joint Ventures from July 1, 1979, marked the beginning of China's market-oriented transformation by enabling foreign businesses to establish joint ventures with Chinese partners who received protection for their capital and profits and the opportunity to export their products through joint ventures (Article 9). The combination of institutional backing and profit reinvestment opportunities with tax benefits sent investors a strong message about China's open business environment and stable regulatory framework (Ministry of Commerce People’s Republic of China, 2005). A milestone was the “open door” policy initiated by Deng Xiaoping. In 1979, the government authorized foreign direct investment in China for the first time through joint ventures with mixed capital. To catalyze these investments, Special Economic Zones (SEZs) were established in some coastal provinces in the early 1980s (for example, the case of Shenzhen). In these pilot zones, the government offered a regulatory and economic environment favorable to foreigners, opening the borders to foreign trade and guaranteeing very low taxation. The SEZs attracted numerous investors thanks to more flexible rules and enhanced export-oriented infrastructure. Among the main incentives to attract foreign investment were generous tax breaks in areas open to foreign capital. In particular, the Chinese government drastically reduced corporate income tax for companies operating in SEZs and other areas dedicated to FDI. The competitive advantage of these zones consisted in fiscal and operational: the Law on Income Tax for Foreign-Invested Enterprises (April 9, 1991) sets a standard rate of 33% (30% state + 3% local) for the rest of the country but provides for reduced rates of 15% (corporate income tax) for (manufacturing) companies in SEZs/ETDZs (National People's Congress of the People's Republic of China, 1991). Furthermore, a 24% tax rate is set in coastal economic and technological development zones and 'open' urban districts (like SEZs, but with slightly higher taxation), as well as multi-year exemptions/reductions for new manufacturing initiatives (Lu, 2022). Finally, since 1999, this preferential regime has also been extended to China's inland provinces, to decentralize FDI and not limit it to its coastal cities. These pro-business tax policies made many areas of China extremely attractive to foreign companies, improving the profitability of investments. As a result, the 1980s and 1990s saw a massive influx of foreign capital, with the establishment of production facilities and joint ventures in strategic sectors. It is a selective plan, designed to attract capital, technology, and export-oriented production precisely where infrastructure and logistics allow for rapid scaling.

In parallel with opening up to investment, China pursued an economic policy in the 1990s centered on more exports and fewer imports. The authorities encouraged FDI in both export-oriented industries and those geared toward import substitution, with the explicit aim of increasing exports and reducing imports. This strategy aimed to achieve a positive trade balance (trade surplus) and, as a result, stimulate domestic growth. In fact, from the mid-1990s onwards, China began to achieve substantial trade surpluses, which helped fuel industrial development and a general increase in incomes in cities (Maddison, 1998). The improvement in the trade balance – together with market reforms – led to accelerated urbanization and consumption: a growing number of Chinese consumers were able to access goods that had previously been considered luxury items, thanks to increased purchasing power in urban areas. In other words, openness to FDI acts as a lever for integration into global chains and industrial upgrading, with visible effects on urban employment and consumption, a precondition for the adoption of high-end goods. The "open door" reforms were extraordinarily successful. In 1999, developing countries received $208 billion in FDI (United Nations Conference on Trade and Development, 2000, p.31), China alone attracted ~$40 billion, a sign of its centrality as an industrial platform and export hub (UNCTAD, 2000, p.52). On average, in the second half of the 1990s, annual flows to China fluctuated around $40 billion, and by the middle of the decade, China absorbed about one-third of FDI inflows to non-OECD countries (i.e., largely to developing economies). This huge influx of foreign capital, accompanied by a decade of annual economic growth of around 10%, radically transformed the Chinese economy (Wang & Conesa, 2022, p.1). A new urban elite emerged with high spending power and a taste for Western goods. It is no coincidence that the first major international luxury brands entered the Chinese market in the 1990s. Brands such as Louis Vuitton, Cartier, Gucci, Prada, Hermès, and many others decided to invest in China as early as that decade. A case in point is Louis Vuitton, which opened its first boutique in Beijing in 1992, at a time when luxury was still a novelty for Chinese consumers. Finally, the logic of decentralizing incentives, initially coastal, was expanded at the end of the decade/early 2000s with the Western Development strategy: Document No. 33 of the State Council (2000) and subsequent tax measures apply reduced rates (15% EIT) to companies investing in "encouraged" sectors in western regions, thus extending the geography of attractiveness beyond the first-tier cities. This consolidates the confidence of long-term investors and supports the spread of premium consumption beyond the main coastal hubs (State Council of the People's Republic of China, 2000).

During the 1990s, China took decisive steps towards integration into world trade. In particular, between November 10 and 15, 1999, the Chinese government negotiated the terms of its accession to the World Trade Organization with the United States, signing a historic bilateral agreement on November 15, 1999 (Ministry of Foreign Affairs of the People's Republic of China, 2024). This event marked China's return to the multilateral trading system after decades of isolation (Beijing had left the GATT in 1949, shortly after the founding of the People's Republic of China). The agreement at the end of the 1990s was a real institutional milestone: it signaled to Western brands that a period of greater regulatory stability was imminent. Joining the WTO meant that China had to accept transparent and predictable rules on trade and investment, with a commitment to break down barriers and open up its domestic market to foreign companies (Office of the United States Trade Representative, 2001). The preliminary agreement to join the WTO was therefore seen as confirmation that Beijing would further favor foreign capital and brands, laying the foundations for a future market boom (including luxury goods) thanks to a more open and reliable regulatory environment.

The range of luxury goods purchased in China in the 1990s reflected the status aspirations of the newly emerging elite. Cars from brands such as Mercedes-Benz, Audi, Rolls-Royce, and BMW became true status symbols for Chinese high society. High-end Swiss watches – Rolex, Omega, Audemars Piguet, Patek Philippe – were also in high demand, prized for the prestige they conferred as well as their practical utility. To flaunt their wealth, many affluent individuals also turned to Italian and French luxury fashion and leather goods: products by Gucci, Chanel, Louis Vuitton, Prada, or Hermès, often paired with jewelry by Tiffany & Co. or Cartier, chosen to celebrate professional successes (Chevalier & Lu, 2012). Among women, the use of exclusive perfumes began to spread, particularly fragrances by Dior, Giorgio Armani, and Chanel, considered symbols of elegance and personal status. Finally, less conventional goods were also included in the luxury basket: fine spirits (especially cognac and whiskey), prestigious Montblanc fountain pens – giving a Montblanc became a strong sign of respect – and even new personal technological devices such as stereo systems and cell phones, which were then uncommon objects of desire. In the 1990s, the distribution of these goods was limited to large cities, indicating that the market was still geographically limited. Sales were concentrated in luxury boutiques located exclusively in major cities such as Guangzhou, Shanghai, and Beijing. This meant that only consumers who were able to physically travel to these urban hubs could access them, effectively restricting the audience to a small urban elite. In this way, places such as international hotels and high-end shopping malls in first-tier cities became hubs where status, social relations, and luxury consumption converged.

2.1.2. 2000's

Over the 2000s, rapid economic growth and urbanization expanded the middle class, fueling a fivefold surge in China's luxury market from 2016 to 2026 (at an extraordinary 17% annual growth rate) (Antioco, 2025). On December 11, 2001, China officially joined the World Trade Organization (WTO), an event considered a historic turning point for its economy. Membership led to the elimination of many restrictions on foreign investment that had been in place in the pre-WTO era, granting foreign investors greater rights and opportunities to operate in the country. For example, until the late 1990s, foreign investors were often forced to operate in joint ventures with local partners, and wholly foreign-owned enterprises were only allowed if they brought advanced technology or produced mainly for export. These restrictions were removed in 2001 in line with WTO commitments, thus promoting the spread of wholly foreign-owned enterprises (enterprises wholly owned by foreign capital) in place of traditional joint ventures. At the same time, entire sectors of the Chinese economy—particularly services—were liberalized: China abolished the restrictions that had previously severely limited foreign presence in retail, wholesale, and commercial distribution. This means that after 2001, foreign chains and companies were able to freely open stores, representative offices, and distribution networks in China, where previously such activities were reserved almost exclusively for local entities.

2.1.3. 2010's

By the mid-2010s China had become the world's second-largest luxury consumer, on track to overtake the US as number one (Shu, 2021, p.1). This boom, however, soon exposed the sector's political sensitivities. Around 2012–2014, President Xi Jinping's anti-corruption campaign, aimed at curbing graft and lavish displays by officials, dealt a short-term blow to luxury sales, effectively "resetting" demand to genuine private consumers and prompting brands to offer more understated, logo-light designs (Shu, 2021, p.5). Luxury consumption didn't vanish; it evolved. Outlet malls flourished by selling discounted premium goods to a broader audience, and quiet luxury (stealth wealth) gained favor amid the crackdown. By 2016, as the campaign's effects waned, Chinese consumers resumed their dominance in the luxury arena, yet with newfound emphasis on subtlety and personal expression over pure status. Cultural values continued to exert a push-pull influence: while face and social prestige encouraged showing off high-end goods, the Confucian notion of harmony discouraged overly conspicuous extravagance. This tension between flaunting wealth and embracing discretion has defined China's luxury ethos in recent decades (Antioco, 2025).

2.1.4. 2018 – onwards

After 2018, China's luxury consumption entered a new phase marked by policy shifts, digital transformation, and generational change. The government began actively encouraging "repatriation" of luxury spending back to the mainland by reducing import tariffs and tightening controls on grey-market daigou sellers. These measures, alongside luxury brands narrowing price gaps with overseas markets, started to pay off: by 2018, Chinese shoppers made 27% of their luxury purchases at home (vs. 23% in 2015), a share projected to reach 50% by 2025. In fact, Chinese consumers already accounted for about one-third of global luxury spending by 2018. Strong domestic sales growth (around 20% in 2018 alone) was propelled by a rising cohort of millennials and Gen Z, who are generally more affluent, travel-savvy, and digitally connected than earlier generations Lannes, 2019, p.1). This younger demographic not only buys traditional status items like handbags and watches, but also fuels trends in niche brands, streetwear collaborations, and "experience luxury" (upscale travel, fine dining, art events) as a form of self-expression. Social media and e-commerce have profoundly amplified these trends: online luxury sales in China grew 27% in 2018 and continue climbing, with platforms like Xiaohongshu and WeChat shaping tastes and enabling new brands to find eager audiences, as seen in the graph below (Lannes, 2019, p.5).

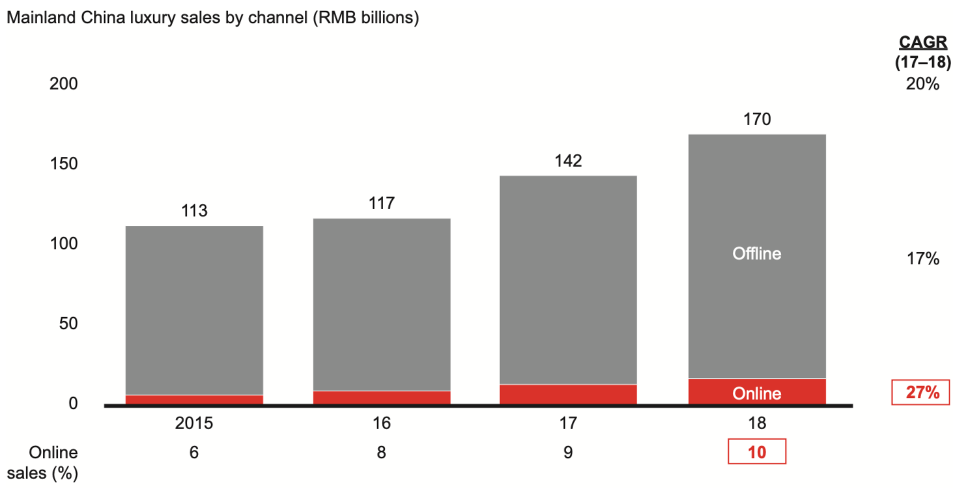

Figure 2: Online luxury sales in China
Source: Bain & Company (2019)

The period since 2018 has also been marked by external shocks and policy pivots. U.S.–China trade tensions and a gradual economic slowdown led Beijing to emphasize a "dual circulation" strategy favoring domestic demand. In line with this, the government boosted duty-free shopping zones (notably making Hainan Island a luxury shopping haven) and cut VAT and import duties on luxury goods to spur domestic consumption, as I will elaborate later. These pro-consumption policies proved timely when the COVID-19 pandemic hit in 2020: with international travel halted, Chinese luxury buyers who formerly shopped in Paris or Hong Kong turned inward. Mainland China's luxury market actually expanded during 2020even as other markets shrank, causing China's share of global luxury spending to leap to roughly one-third or more. Government moves like raising the annual duty-free allowance per person (from ¥30,000 to ¥100,000 in mid-2020) further incentivized high-end spending at home (Shu, 2021, p.5). By 2021, China's luxury sales rebounded strongly, and global brands increasingly tailored their strategies to Chinese tastes and calendars (for example, special Lunar New Year editions and art collaborations with Chinese designers) as this market became their key growth engine.

A significant political development in this era has been President Xi's "common prosperity" campaign, launched in 2021 to address inequality. Initial announcements of this agenda caused jitters in the luxury industry, luxury stock prices dipped on fears of a new crackdown reminiscent of the anti-graft days. In practice, the common prosperity drive has not entailed an all-out assault on luxury consumption, but it did signal a subtle shift in tone. There were calls in state media to avoid excessive ostentation, and entertainment celebrities, often brand ambassadors for luxury houses, came under stricter scrutiny for tax compliance and decadent lifestyles as authorities sought to curb "irrational fan culture" (Antioco, 2025). Some ultra-wealthy individuals have since kept a lower profile, and flaunting extreme wealth became somewhat less socially palatable under the new ethos. However, rather than shrinking China's luxury market, these measures are arguably reshaping it. The government's vision of prosperity is to expand the middle class, not to punish it. Indeed, China aims to double its middle-income population to ~800 million by 2035, which would create a vast new pool of potential luxury consumers even if the ultra-rich moderate their spending. Surveys from Morgan Stanley and AlphaWise show middle-class Chinese are already the most avid luxury purchasers by income group (Anchor Capital, 2021), and today luxury goods in China are increasingly aspirational purchases for the masses rather than reserved for a tiny elite. In the long run, policies that raise disposable incomes and reduce inequality (e.g. improving social welfare, reforming taxes) could broaden the base of luxury consumption, making it more sustainable and less dependent on corrupt extravagance.

Culturally, the post-2018 era has seen Chinese consumers become more confident and discerning. The concept of "Guochao" (national wave) captures a rising pride in domestic brands and Chinese heritage; luxury buyers now celebrate products that blend international quality with Chinese cultural elements. Even global maisons like Louis Vuitton and Dior have incorporated Chinese motifs and collaborated with local artists to resonate with this sentiment. Meanwhile, a turn toward "quiet luxury" means logos are less flashy, a nod to both sophisticated taste and the political climate's preference for humility. Younger consumers are also driving demand for sustainable and vintage luxury. Secondhand luxury platforms and influencer content on Douyin (TikTok's Chinese version) have made buying pre-owned designer items trendy and eco-conscious. This reflects a maturation of China's luxury market: consumers now seek not just social status but also personal value, authenticity, and even ethical consumption in their high-end purchases (Antioco, 2025).

In summary, the evolution of luxury consumption in China is a story of dizzying growth tempered by policy and cultural recalibrations. From a country with virtually no luxury presence 40 years ago, China has transformed into the driver of the global luxury industry by blending its swelling economic might with deep-rooted social values. Political decisions – whether Deng's market reforms, Xi's anti-corruption crusade, or the recent common prosperity policies, have directly influenced how and what Chinese people buy. Yet consumer behavior has also organically evolved: today's Chinese luxury buyers are more numerous, younger, and increasingly sophisticated, balancing a desire for prestige with a quest for individuality and cultural pride. This interplay of government policy, social norms, and consumer aspirations makes China's luxury consumption a fascinating subject not just for business analysts but also for political and social scholars examining how economic change interacts with cultural identity and governance. The coming years will likely further test this balance, but if current trends hold, China's taste for luxury, refined by resilience and adaptation, will continue to shape the global luxury landscape in a uniquely Chinese way.

2.2. Types of products: performance and trends

In recent years, the Chinese luxury market has shown remarkable resilience and transformation, with different trends depending on product categories. After the contraction recorded in 2022 due to the pandemic (approximately -10% in sales of personal luxury goods) (Bain & Company, 2023), 2023 saw a significant rebound (approximately +12%), bringing the market value back to RMB 449 billion (Sgueglia, 2024). In fact, despite recent economic turbulence, China remains the world's second-largest luxury market and, according to a Houlihan Lokey report (2025), it is expected to grow faster than the US until 2028, as shown in Figure 3. The structural drivers are the expansion of the middle class, a social stratification that keeps the desire for status symbols alive, less frequent but more high-end purchases, and a focus on domestic ('home-grown') products. Furthemore, according to PwC, China is expected to become top market by 2030, as described in Figure 4.

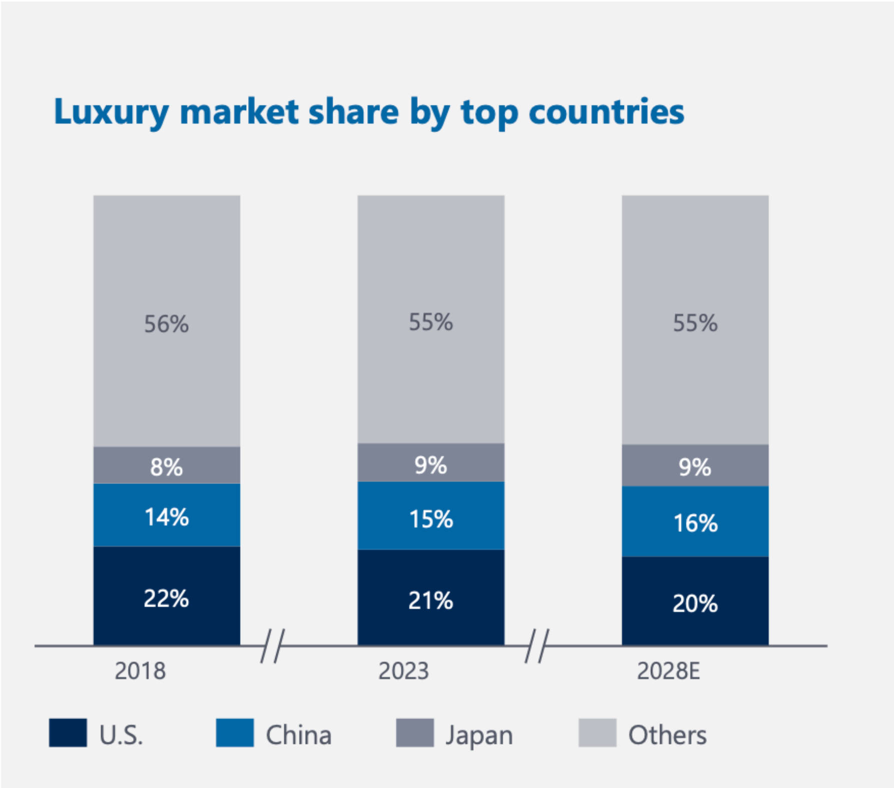

Figure 3: Global luxury market share: US vs. China (2018-2028E)
Source: Houlihan Lokey, 2025

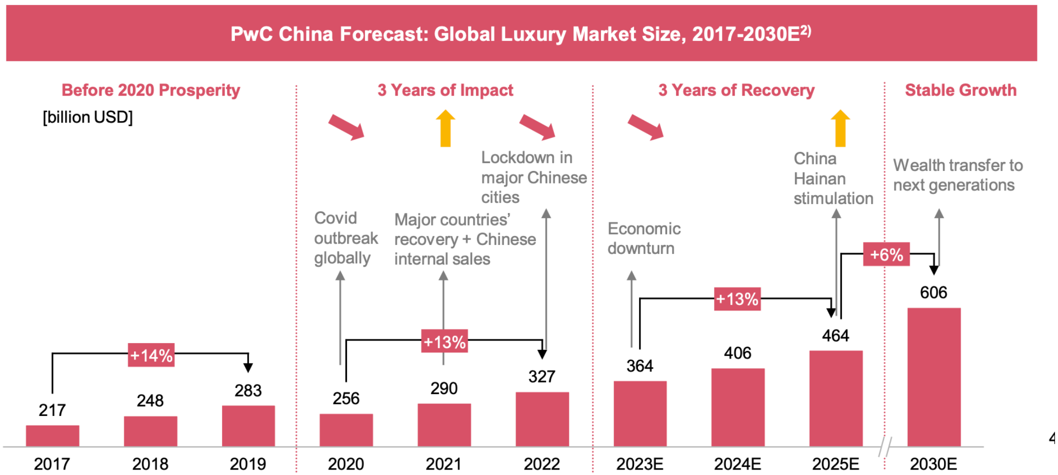

Figure 4: China: Personal luxury goods market size and global share (2017–2030E)
Source: PwC, 2024

2.2.1. Jewelry and watches

The main trends and product categories in the chinese luxury market are varied. First of all, hard luxury (jewels and watches). Jewelry has shown a strong recovery, reflecting Chinese consumers' continued appetite for valuable accessories. Foreign brands such as Cartier, Tiffany, Bulgari, and Van Cleef & Arpels remain hugely popular, but unlike other segments, domestic brands (e.g., Chow Tai Fook, Chow Sang Sang, Lao Feng Xiang) hold significant market share in this sector. Luxury watches have seen more moderate growth (around +5–10% in 2023), held back by evolving preferences and a polarization towards established high-end brands. Historically, jewelry and leather goods tend to perform better than other categories in China, while watches are weaker in difficult times – a trend that was also confirmed during the slowdown in 2022.

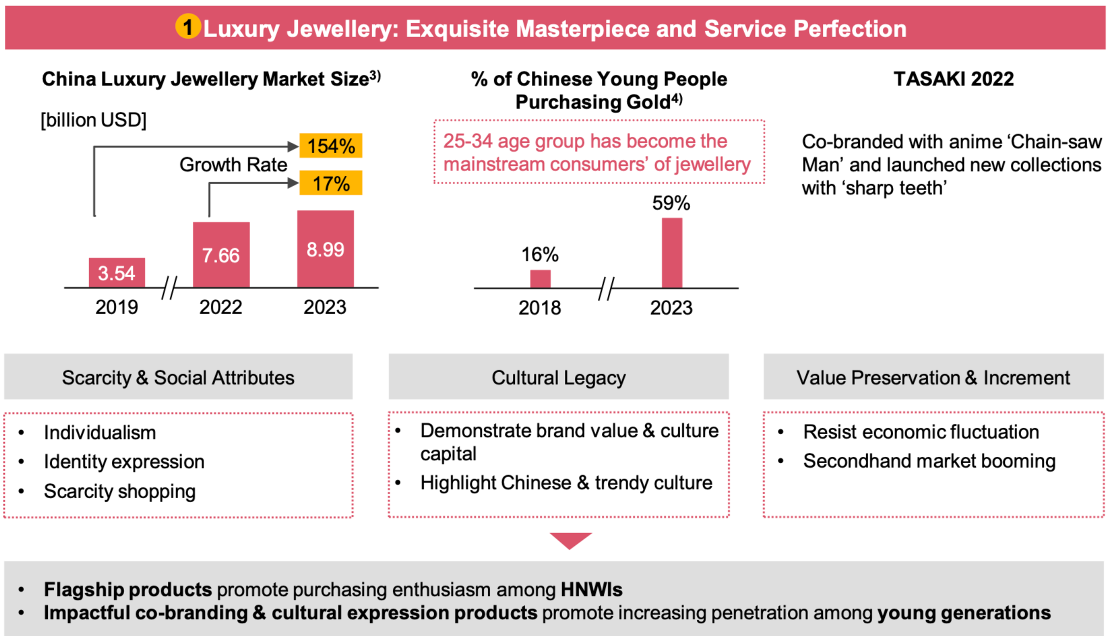

Figure 5: Young people and gold in China: penetration and growth of luxury jewelry

Source: PwC/Euromonitor, 2024

Luxury jewelry in China has accelerated since 2020, supported by a clear rejuvenation in demand: the share of under-35s buying gold has risen from 16% (2018) to 59% (2023), with 25–34-year-olds becoming the main cohort in the market. This demographic shift is accompanied by a search for lasting value and cultural/local content, as well as a growing interest in collections with high ESG content (certified recycled gold, end-to-end traceability) and men's jewelry, amplified by male KOLs/celebrities. Among the most cited examples: Prada “Eternal Gold,” the first high jewelry line with 100% certified recycled gold and public traceability of gold/diamonds; at the same time, several maisons (Cartier, Piaget, Van Cleef & Arpels) have expanded their men's offerings, while Louis Vuitton launched its first men's fine jewelry collection “Les Gastons Vuitton” (rings, necklaces, earrings, bracelets) in 2024, marking the normalization of the segment in the Chinese luxury mainstream (PwC, 2024, p.14). These trends - high & sustainable and men's jewelry – are redefining mix and communication, with positive effects on penetration among Gen Z/Millennials and on average receipts in the country's top markets. Furthermore, although remaining a more cyclical/volatile category, watches benefit from very specific demand centers in China, primarily the duty-free channel in Hainan, where timepieces are consistently among the main drivers alongside cosmetics and jewelry. The 2019→2023 data, contained in Figure 6, show an acceleration of the duty-free market (sales from RMB 13.6 to 43.8 billion, with RMB 160 billion in 2025E), supported by network expansion (from 4 to 12 points of sale) and pro-consumption policies. Within the Hainan mix, watches receive dedicated focus in terms of assortment and price architecture, with ad hoc activations (e.g., OMEGA Seamaster “Summer Blue” launched in Sanya) and significant share/increases in 2023, as shown in Figure 6. (PwC, 2024, p.37).

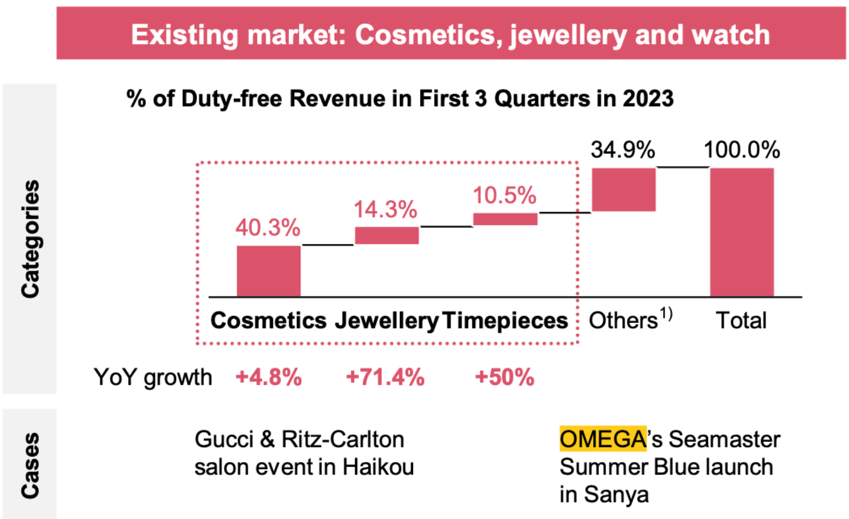

Figure 6: China, Duty-Free (Q1–Q3 2023): Revenue Share by Category and YoY Growth - Cosmetics, Jewelry, and Watches
Source: PwC, 2024, p. 37

2.2.2. Fashion and leather goods

Moreover, fashion (lifestyle and clothing) has led the post-pandemic recovery with growth rates between +15% and +20% in 2023, as demonstrated in Figure 7.

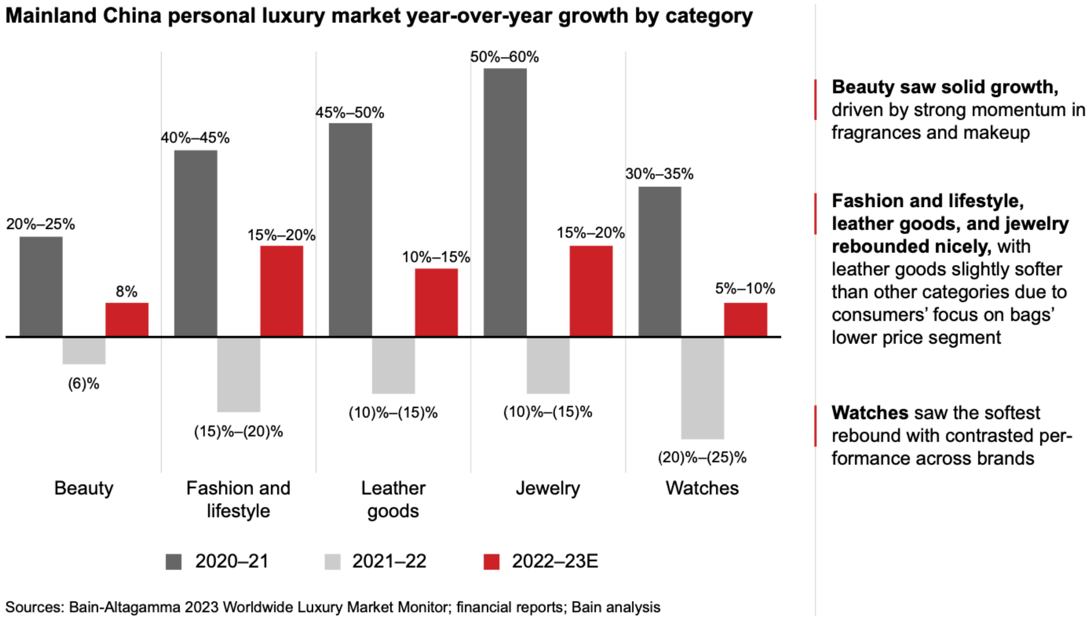

Figure 7: Mainland China: YoY growth of the personal luxury market by category (2020–21, 2021–22, 2022–23E)
Source: Bain, 2024, p. 3.

Chinese consumers, especially younger ones, have responded well to new collections and collaborations, rewarding brands such as Dior, Miu Miu and Gucci that have been able to capture their tastes. There is growing interest in iconic, high-quality products, partly in response to recent price increases: many buyers are looking for timeless pieces or items with lasting value, showing a preference for goods that retain their value over time.
The period between late 2024 through Q1 2025 brings a noticeable shift in market trends because leading revenue indicators indicate "loud" brands with logo-driven high-fashion appeal are gaining speed while "understated" brands experience a slowdown.

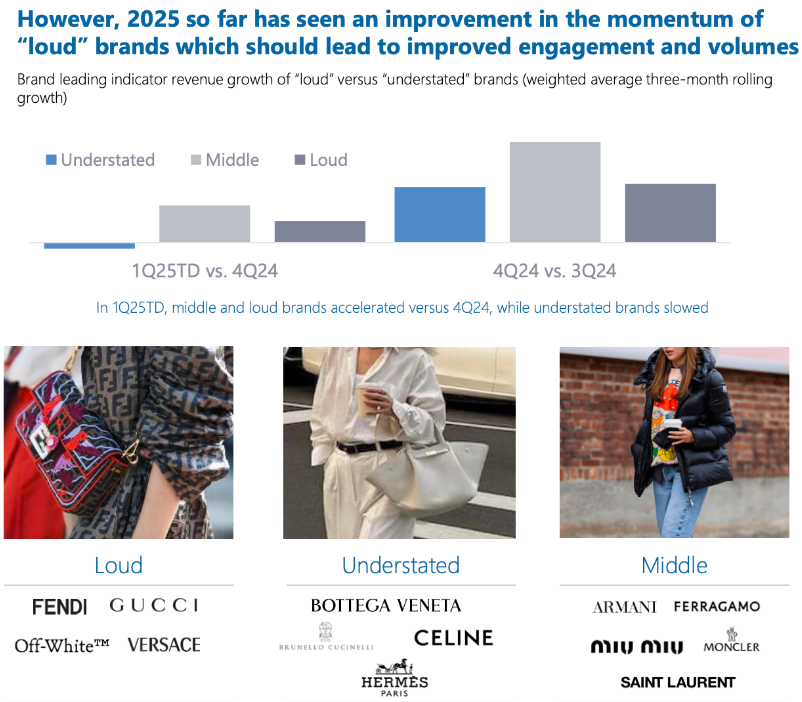

Figure 8: 2024 → Q1 2025 (global): improvement in momentum for "loud" brands compared to "understated" brands — leading indicator of engagement and volumes
Source: Houlihan Lokey, 2025, p. 12.

The long-running quiet luxury trend which started in 2021 created a significant market impact because its minimalist designs made products more accessible while encouraging counterfeit purchases and making new collection items seem less exciting to consumers during times of economic uncertainty. The current data shows that 2024 might have reached its peak while Q1 2025 brings increased consumer interest toward "loud" brands although Chinese consumers continue to practice "luxury shame" by showing restraint in their purchasing choices. The fashion and leather goods industry should adopt a dual approach by bringing back fashion elements and identity markers which create market barriers yet maintain the understated style preferred by Chinese consumers.
The sector experienced 60% growth from 2019 to 2024 because of price increases yet the 2024 ASP increase of +8% combined with -10% volume decline produced negative growth. The market has restricted price list adjustments because several brands now choose to stop increasing prices or become more cautious about their price changes during

2025 (Houlihan Lokey, 2025, p.11). The fashion and leather goods sector faces a critical situation because price increases no longer work as a solution so businesses must focus on product innovation and new experiences and client relationships to boost sales volume and maintain premium value perception.

The 2024–25 growth needs more local cultural content and desirable capsule collections that include city-specific and Chinese holiday-themed items and heritage reinterpretations. The conversion of website visitors into customers depends on immersive pop-up events and brand collaborations that support the sales process. The Chinese market depends on cultural partnerships with theaters and exhibitions and trendy locations and luxury and restricted art toys to attract Gen Z consumers and young high net worth individuals. The temporary bookstore concept and Pop Mart partnership and exhibition-based capsule collections have proven successful in China because they create social buzz and sell out quickly. The luxury × sports trend through drops and sponsorships helps brands reach new customers while building their fashion reputation. The luxury × sports trend through drops and sponsorships helps brands reach new customers while building their fashion reputation (PwC, 2024).

Luxury leather goods have also returned to double-digit growth (+10–15% in 2023) (Bain & Company, 2024). However, Chinese consumers in this field show a tendency toward slightly lower-priced items within luxury lines. This indicates that many buyers, while desiring branded products (handbags, small leather goods), often prefer entry-level options or goods with a more affordable price-quality ratio. Major European brands such as Hermès, Chanel, Louis Vuitton, and Prada continue to dominate this segment in China, but the focus on value is also opening up space for less flashy or logoed products, in line with a search for more discreet luxury

2.2.3. Beauty (Cosmetics & Perfumes)

The beauty sector is booming, recording growth of around 8% in 2023 (Bain & Company, 2024). This increase is driven in particular by strong demand for niche perfumes, premium skincare products, and high-end makeup. Chinese consumers, especially young women, attach great importance to personal care and beauty innovations, making this one of the most dynamic sectors. Brands such as Helena Rubinstein, La Mer, Dior Beauty, and other luxury cosmetics lines are benefiting from this positive trend. In addition, beauty was the most resilient segment during the pandemic lockdowns thanks to its high online penetration rate (over 50% of beauty sales occur online): in 2022, sales of luxury cosmetics in China fell by only 6% (see Figure 7), much less than other categories more closely linked to the in-store experience. The premium market segment maintained its growth trajectory through macroeconomic fluctuations because it expanded by 16% from RMB 36 billion in 2018 to RMB 74 billion during 2018-2023 through innovative skincare and makeup products, as seen below.

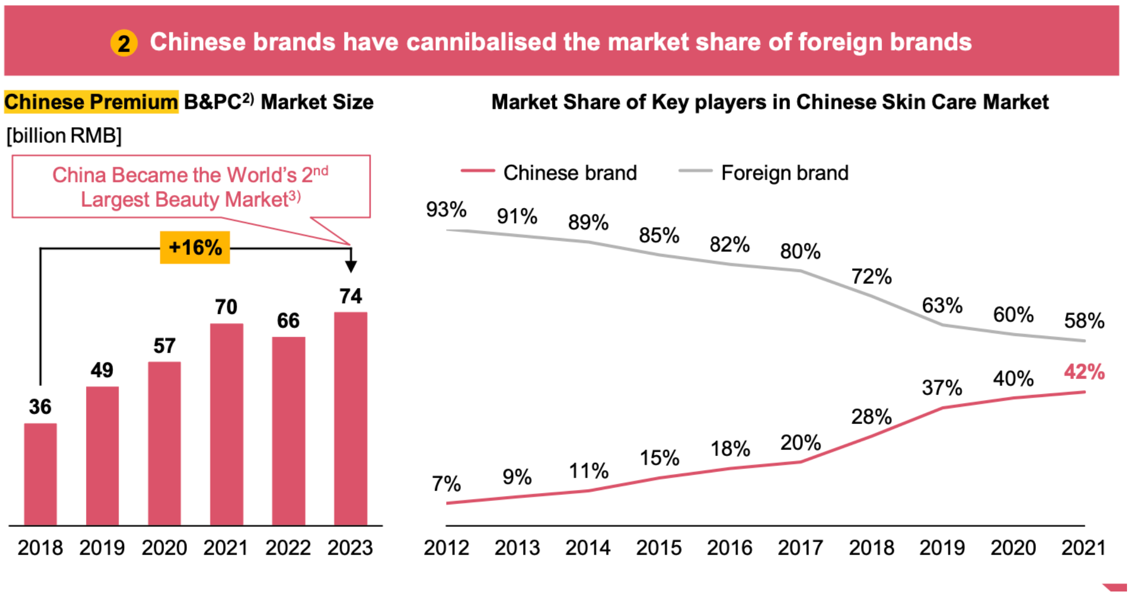

Figure 9: Premium beauty in China: growth 2018–2023 and shift in market share toward domestic brands; NMPA regulations 2021–2023.
Source: PwC/Euromonitor, 2024 (PwC, 2024, p.25).

The domestic skincare market experienced rising competition because foreign brands lost market share to 58% in 2021 while Chinese brands increased their market share to 42% from their previous 7% in 2012. The regulatory environment for cosmetics has become more demanding because China implemented three major regulations between 2021 and 2023 which require evidence for claim support and enforce INCI standards and ban specific claims and establish quality and safety responsibility rules with experienced personnel. The new regulations demand companies to maintain responsible marketing practices while providing complete transparency about product effectiveness and origin tracking (Cisema, 2023). Brands now use AI technology to create personalized skincare and makeup solutions and digital-first premium services that match Chinese consumer preferences through shade matching and 3D configurators and digital tags/IDs and AI authentication systems. The company uses AI technology to deliver personalized pre-sales support and individualized service and post-purchase assistance while maintaining product authenticity and tracking capabilities from start to finish.

Finally, concerning perfumes, the Chinese premium fragrance market has nearly doubled from ~$1.25 billion to ~$2.25 billion between 2019 and 2023, driven by two key factors: “ultra-premium” (excellent formulas, handcrafted bottles and materials, selective pricing) and “cultural attribution” (olfactory notes, packaging, and storytelling with local references that promote individualism and personal expression) (see Figure below).

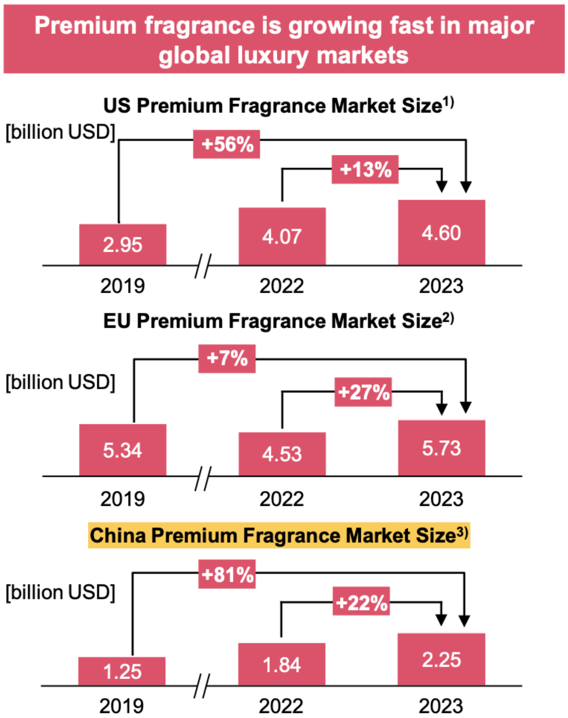

Figure 10: Premium fragrances: growth in key luxury markets (US, EU, China), 2019–2023

Source: Euromonitor, Statista, PwC analysis (PwC, 2024, p.13)

2.3. Distribution Channels

In China, luxury sales channels are increasingly integrated into an omnichannel ecosystem that combines the immersive experience of physical stores with the convenience of E-commerce and the interactivity of social media. In 2024, domestic stores remain the main channel for the last purchase (36%), followed by domestic E-commerce (19%), cross-border E-commerce (14%), overseas/daigou (10%), WeChat mini-program/shopping guide (9%), and brand websites/apps (5%); confirming a hybrid journey orchestrated by WeChat (private domain), Tmall/JD, and Douyin/RED (TMI & BCG, 2024, p.37).

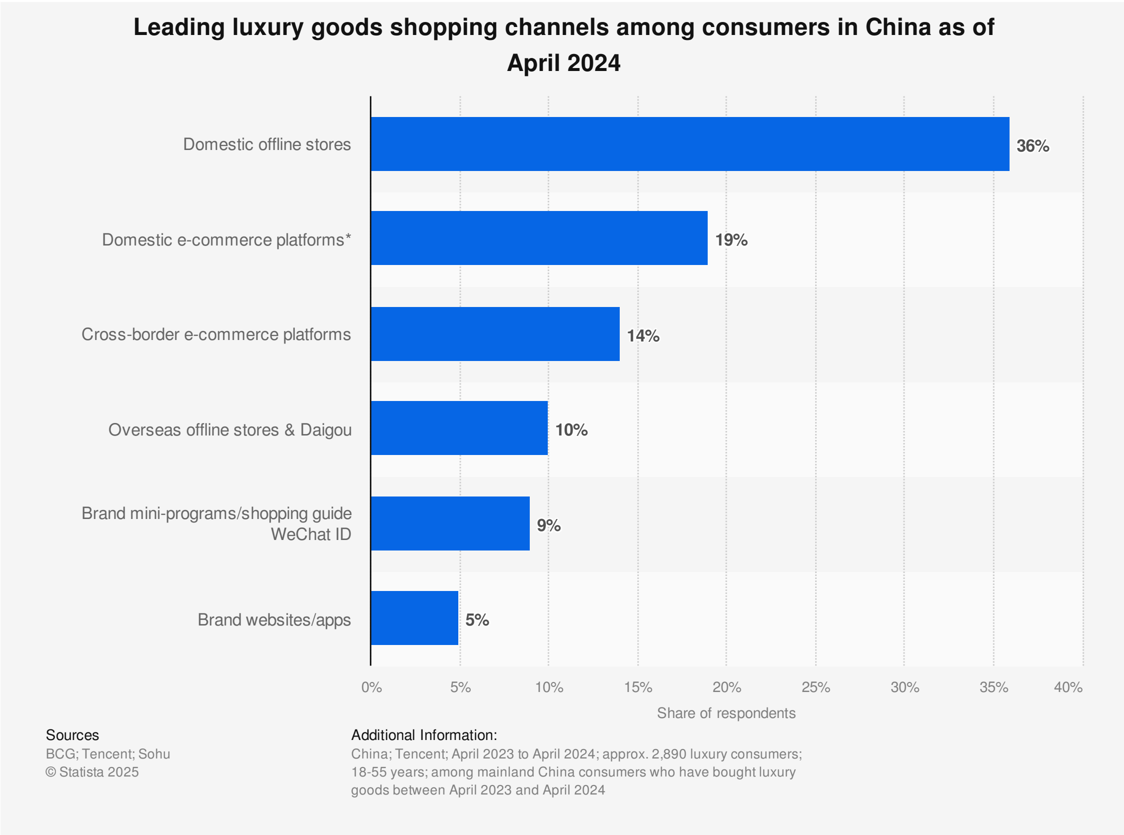

Figure 11: China 2024 – Leading Luxury Shopping Channels

Source: BCG x Tencent via Statista

Luxury brands have understood that to engage modern Chinese customers, they need to offer a seamless journey between online and offline, enriched with unique experiential elements. The most important structural trend in recent years has been the reversal of Chinese consumers' purchasing location: before Covid, most spending took place abroad,

while during and immediately after the pandemic, the domestic market took over. In 2019, Chinese purchases were divided between approximately 57% abroad and 43% on the mainland, out of a total of ~RMB 340 billion; therefore, domestic spending was ~RMB 146 billion (not 141). In 2023, the main estimates converge on the prevalence of domestic spending: Bain indicates a domestic share of around 70% (measuring "where Chinese consumers buy"), while BCG estimates ~82% domestic / 18% foreign on ~RMB 550 billion (different methodology, which also provides values in RMB). In any case, the "reversal" is real, but a value of RMB 314 billion for domestic in 2023 is not supported by the BCG series.
The drivers of rebalancing include Hainan and the strengthening of domestic supply; however, the price gap with foreign countries has not narrowed compared to 2022 and is one of the reasons why cross-border shopping has returned to growth.

2.3.1. Physical retail and experience

Brands are pushing for geographical expansion, as shown in Figure 12.

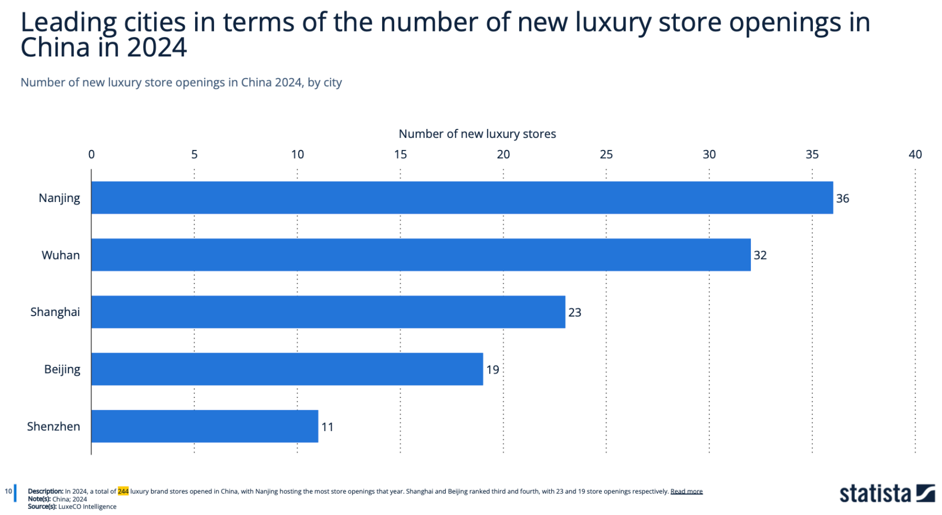

Figure 12: Leading Cities by Number of New Luxury Store Openings in China, 2024
Source: Statista (Statista Research Department, 2025, p.10).

Luxury stores in China are no longer just retail outlets, but experiential destinations designed to engage visitors in every way possible. A prime example is Louis Vuitton's new flagship store in Shanghai, called “The Louis,” a 30-meter-high ship-shaped structure that houses art exhibition spaces and even a café. Opened in 2025, this concept store is designed to attract crowds of visitors eager to photograph the spectacular architecture and share it on social media, thus creating buzz around the brand (Hall, 2025). The strategic goal is clear: to transform shopping into entertainment (“retailtainment”) by offering Instagrammable environments and cultural events that make the visit memorable and stimulate sales at a time when local demand is less resilient. In fact, the in-store experience is evolving towards immersive spaces and local codes that strengthen the emotional connection with the brand. It is the logic of retailtainment and lifestyle positioning (cafés, spas, restaurants, hospitality) that groups are adopting to fuel organic traffic and social buzz. Many major brands are following this approach, reducing the number of traditional boutiques but opening monumental flagship stores and innovative spaces (exhibitions, themed cafes, luxury restaurants) in major Chinese cities. This integration of experiential elements into physical retail aims to strengthen the emotional connection with the customer: the store becomes a place where consumers can immerse themselves in the brand's universe, experiencing something exclusive that goes beyond the purchase of the product. In a market where many consumers say they already own “enough” material things, focusing on experience allows brands to remain desirable and relevant (Daxue Consulting, 2024). For example, Cartier in Chengdu evokes Ba-Shu landscapes in its décor, while Hermès in Nanjing uses materials such as bamboo, wicker, and Yuhua stone, reflecting a “cultural” localization of interior design (PwC, 2024, p.31).

Crucially, this retailtainment approach is not confined to Tier-1 megacities; it is also extending into China’s rising Tier-2 urban hubs. Luxury groups that once focused on Beijing, Shanghai, Guangzhou, and Shenzhen are now investing in experiential flagships in cities like Chengdu, Nanjing, and Wuhan, driven by burgeoning local wealth and shifting demographics. According to Bain & Company, lower-tier (Tier-2 and Tier-3) cities are “showing vitality” thanks to population migration that boosts both spending volume and average purchase value (Lannes, Xing, & Gu, 2025, p.11). In fact, Chengdu has added more new retail space than many first-tier cities, with consumer spending in some Tier-2 areas now growing faster than in Beijing or Shanghai.. Brands recognize these trends and are seeking first-mover advantage in emerging luxury markets beyond the traditional coastal capitals. Jing Daily reports that “luxury brands have begun to recognize the potential in China’s lower-tier cities”, noting examples like Wuhan which recently saw the opening of its second K11 Art Mall (Wang, 2025).

Specific developments underscore how Tier-2 cities have become new luxury destinations. A striking example is the launch of the SKP mall in Wuhan in mid-2024 – a 200,000-square-meter luxury complex combining a department store “box” with an outdoor high-end promenade. This project introduced over 1,000 premium brands (with 200 of them new to central China) and attracted around 100,000 visitors daily after its opening. Wuhan SKP’s immediate popularity – reportedly surpassing ¥100 million RMB in first-day sales – illustrates the pent-up demand for upscale experiences in a city outside the traditional Tier-1 sphere. Likewise, Chengdu has solidified its status as a luxury hub: Taikoo Li Chengdu and Chengdu IFS host numerous flagship stores, and SKP even debuted a sprawling sunken-style mall there, drawing visitors nationwide.These locales are not just retail venues but lifestyle centers, often integrating art installations, gourmet dining, and local cultural elements to engage shoppers. By opening monumental stores in provincial capitals and “new first-tier” cities, brands are able to tap into affluent consumers who no longer need to travel to Shanghai or Beijing for a world-class luxury experience.

Importantly, luxury houses tailor these new spaces to local tastes and culture, strengthening regional resonance. For example, Cartier’s boutique in Chengdu’s Taikoo Li is adorned with hand-painted Ba-Shu landscape motifs and the city’s iconic gingko trees, while Hermès’ store in Nanjing’s Deji Plaza features décor materials like bamboo, wicker, and Yuhua stone that reflect Jiangnan’s heritage (PwC, 2024, p.31). This cultural localization of design not only provides an “Instagrammable” setting but also creates a sense of pride and connection for local shoppers. By embedding references to local art, history, and nature, brands make each flagship feel unique to its city’s identity – a strategy that reinforces the emotional bond between consumer, place, and brand. The tiered-city approach is thus evolving: Tier-1 flagships push architectural and experiential boundaries (e.g. Louis Vuitton’s ship-like “The Louis” in Shanghai) to generate global buzz (Hall, 2025), while Tier-2 flagships focus on immersive localization to win over regional high-net-worth individuals. Industry analysts note that nearly half of China’s luxury consumption now comes from Tier-2 and Tier-3 cities, a share likely to grow as infrastructure and incomes in those cities continue to rise.

2.3.2. E-Commerce

As domestic consumption grew, E-commerce channels became increasingly vital. China is the world's largest E-commerce market, and luxury brands have had to adapt quickly (Nijenkamp, 2023, p.25). As shown in Figure 11, E-commerce (domestic and cross-border), is the second leading luxury shopping channel among consumers in China. At the same time, since 2020, onshore spending has exceeded offshore spending, and the gap remains wide: in 2024, Chinese consumers spent RMB 504.4 billion domestically (−17% y/y) compared to RMB 423 billion abroad (−3%); online sales reached RMB 237.5 billion, equal to ~46% of the onshore market, after a surge from 2019 to 2023: RMB 51.9 → 257.4 billion (see Figure 13).

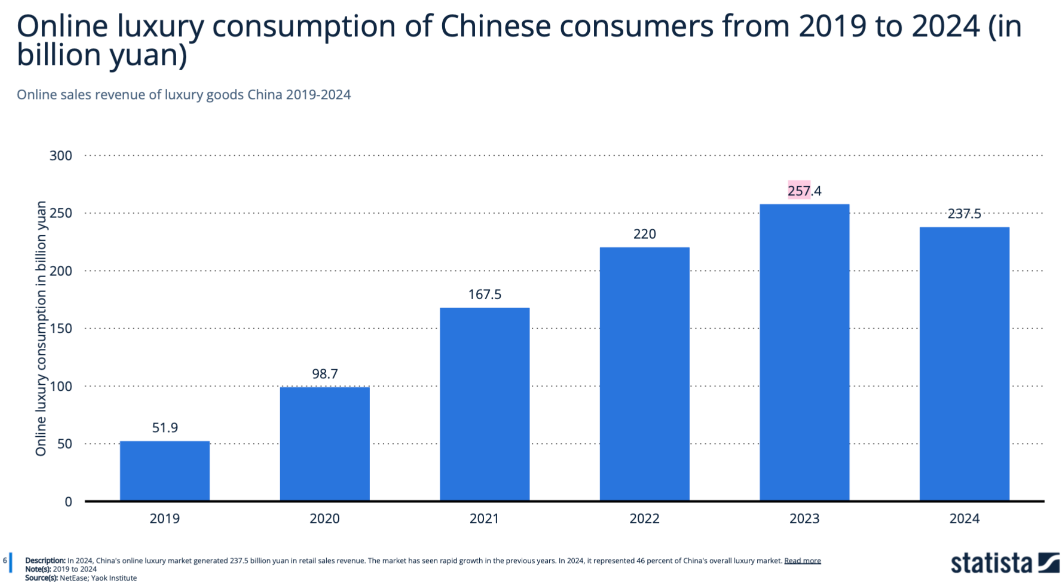

Figure 13: Online luxury consumption of Chinese consumers from 2019 to 2024 (in billion yuan)

Source: NetEase; Yaok Institute via Statista (2024, p. 6)

The Online-to-Offline (O2O) model has become a foundational and highly sophisticated strategy for luxury brands operating in China, representing a synergistic integration of physical and digital channels to create what is often termed a "phygital" or omnichannel retail environment. Channels have distinct and complementary roles: domestic marketplaces (Tmall Luxury Pavilion, JD.com) cover “shelf & service” (deep assortment, services, and after-sales); WeChat acts as a private domain (mini-programs, membership, and 1-to-1 clienteling); video-social platforms (Douyin and Xiaohongshu/RED) oversee the interest → conversion arc with live and quiet selling (Daxue Consulting, 2024, p. 23–27, 35–39). The primary objective of this model is to deliver a seamless, frictionless, and customer-centric journey, effectively erasing the boundaries between a brand's online presence and its brick-and-mortar stores.

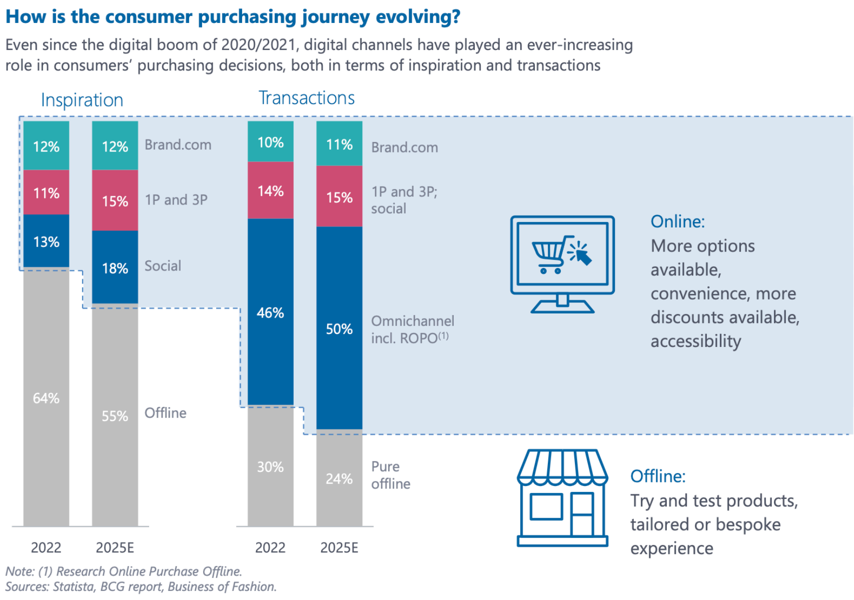

Figure 14: Evolution of the luxury customer journey: growth of digital channels and omnichannel retailing (ROPO) – Inspiration vs Transactions, 2022–2025E
Source: Statista, BCG report, Business of Fashion, via Houlihan Lokey (2025), p.17

This integration is a direct response to evolving consumer behaviors, most notably the "Research Online, Purchase Offline" (ROPO) model, where customers leverage digital platforms for discovery and product evaluation before completing their purchase in a physical setting (Statista Market Insights, 2024, p.37).

To bridge this gap, luxury brands employ a range of O2O tactics. A key strategy involves enhancing the physical store experience with digital tools, a concept that, as I, is known as "retailtainment". This transforms stores into creative and experimental centers through the use of interactive displays, AR-enabled mirrors, and smart dressing rooms, all designed to foster a multisensory journey and a strong emotional connection with the brand. A prominent linking mechanism is the QR code, which brands like Gucci place on product tags and in-store displays. Scanning these codes directs customers to online platforms for more detailed product information, virtual try-on features, and exclusive behind-the-scenes content (Houlihan Lokey, 2025, p.17). Furthermore, the O2O model extends beyond the store visit through digital clienteling, where sales associates use platforms like WeChat to maintain personalized, one-on-one relationships with customers, thereby blending the in-store human touch with digital convenience (Bai et al., 2021, p. 4).

Conversely, digital channels are strategically used to drive foot traffic to offline locations. Brands utilize online platforms to promote unique in-store events, such as Chanel's "COCO GAME CENTER," a pop-up beauty arcade that successfully attracted younger consumers to a physical brand experience (Sun, 2024, p.261). Practical services like "click-and-collect" also serve to bring online shoppers into the physical retail space, creating new opportunities for engagement. This O2O approach redefines the role of the brick-and-mortar store, shifting its focus from a mere point of sale to a vital hub for experience, entertainment, and community building.

"*Beyond mere consumption, we'll go to these spaces for entertainment, education, connection and community. This is not to suggest that there will be no products for sale in these physical spaces, only that the emphasis will not be sales but rather on catalyzing a relationship with the consumer that transcends the store.* "

By Doug Stephens, via Statista (2024) p. 35.

In a notable inversion of the traditional model, even digital-native luxury companies are opening physical locations, recognizing that a tangible presence enhances brand legitimacy, allows for the crucial "touch-and-feel" aspect of luxury, and paradoxically drives greater organic traffic to their e

E-commerce sites (Statista Market Insights, 2024, p.34). Ultimately, the O2O model in China's luxury market has matured into a comprehensive, 360-degree strategic framework, where online and offline activities are fully integrated and mutually reinforcing, making it an essential standard for meeting the high expectations of the modern Chinese consumer (Houlihan Lokey, 2025, p.17).

2.3.3. Social Commerce and Live Streaming

The Chinese market uses social commerce and live streaming as fundamental drivers of luxury growth because digital adoption transformed KOLs and creators into essential components for brand awareness and conversion and customer relationship management. The content and collaborative efforts between video-social platforms help brands reach new customers effectively because younger consumers now use social media to find and buy products (Wang & Fang, 2020, p. 2). The brand ecosystem includes two types of channels which focus on generalist content and fashion-specific content. The brands use WeChat as their main private domain for Official Accounts and Mini Programs and WeCom for 1:1 clienteling while they activate Weibo and Douyin/TikTok and Bilibili and Xiaohongshu for storytelling and product launches and community engagement through local influencer partnerships for trial promotion and word-of-mouth marketing (Daxue Consulting, 2024, p.39). Notably, Xiaohongshu is considered a nexus for brand storytelling and community building, influencing purchasing decisions through user-generated content, with brands like Hermès using it to showcase craftsmanship and others prioritizing it for event communication, such as the Fendi × Heytea collaboration PwC, 2024, p. 30). The live streaming format has become essential for various social media platforms because Gucci used Weibo to broadcast a 12-hour Finale collection launch event which combined a themed pre-show with interactive live features and celebrity appearances to generate fan engagement and sales success (Cheng, 2024, p. 125). This influencer strategy encompasses both top-tier Key Opinion Leaders KOLs – celebrities who translate their "fan economy" power directly into sales – and an emerging class of influencers known as KOCs. In response to concerns about authenticity and the high cost of KOLs, brands are increasingly leveraging KOCs, whose relatable, peer-style reviews exert a powerful, friend-like impact on purchasing decisions. WeChat allows brands to use Video Channels and Moments Ads and Mini Programs with Sales Assistants to drive customer traffic and conversions within their own ecosystem while Douyin functions as a powerful interest-to-commerce platform through its short video and live streaming content which drives strong engagement and rapid growth in jewelry and handbag and watch categories (PwC, 2024, p.30). For instance, the luxury timepieces category has grown by about 186% on the platform, while luxury apparel and fashion have posted growth rates exceeding 300% (PwC, 2024, p.30). A powerful example is Cartier's "Into the Wild" livestream, which was displayed in Moments ads and achieved over 10 million exposures, demonstrating the platform's reach for high-impact campaigns (PwC, 2024, p.30). The post-pandemic period has quickened the process of uniting social media platforms with premium marketplaces through commerce integration. Tmall Luxury and JD Luxury operate as primary online shopping destinations for luxury brands; beyond simple marketplace functions, they provide credit endorsement and sophisticated data analysis to target consumers (e.g., Cartier's launch on Tmall's Super Brand Day), while JD.com differentiates itself with specialized services like "JD Luxury Express" and strict anti-counterfeiting mechanisms. High-end beauty companies also prefer to enter China through Tmall instead of building physical stores (Wang & Fang, 2020, p.4). The "social + live" axis enables complete customer journey support from discovery through creator and community influence to immediate live broadcast purchases while utilizing brand-owned and platform-based E-commerce tools for Chinese market success. The luxury market now includes social commerce and live streaming as permanent elements which operate within a hybrid retail environment where offline stores continue to dominate but social commerce and live streaming have become essential for luxury demand.

2.4. Competitors

The Chinese luxury market is a highly competitive arena dominated by powerful European conglomerates, iconic independent brands, and a growing number of emerging Chinese brands. Competition is not limited to the product, but extends to digital presence, experiential marketing strategies, and the ability to connect with young, culturally aware consumers.

2.4.1. The big European conglomerates

LVMH – Louis Vuitton Moët Hennessy: LVMH, the world leader in luxury goods, closed 2024 with revenues of €84.7 billion; Asia (excluding Japan) is the Group's leading region with 28% of turnover, ahead of the United States (25%), confirming China's strategic importance in the geographical mix, as seen in Figure 15.

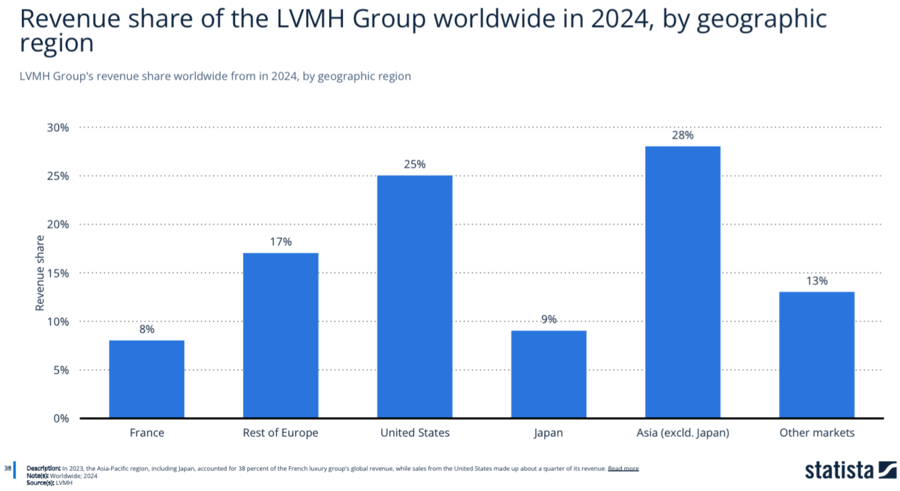

Figure 15: LVMH – Revenue Share by Geographic Region (2024)

Source: LVMH via Statista

The Group has deep historical roots in China: Louis Vuitton was a first mover (opening its first boutique in Beijing in 1992) and LVMH regularly renews its commitment to the country, for example with its large pavilion (600 m²) and 14 Maisons presented at the China International Import Expo. As a report from Daxue Consulting (2024) shows in Figure 16, in terms of brands and local initiatives, the portfolio covers both the cultural and retail dimensions: "The Louis" in Shanghai for Louis Vuitton, Loro Piana's centenary exhibition at the Shanghai Museum of Art, and Bvlgari's celebrations for the Year of the Snake with immersive exhibitions in key cities; in wine, Ao Yun consolidates its position as the best red wine produced in China. Furthermore, LVMH also organizes library pop-ups in collaboration with Chinese coffee chains, such as Manner coffee.

Figure 16: Types of Co-Branding Leveraged by Luxury Brands in China
Source: Daxue Consulting

In terms of recent results, the first half of 2025 shows resilience in Fashion & Leather Goods (with iconic stores and experiences supporting local demand), while in spirits, cognac remains weak in China, consistent with the normalization reported in 2024 (LVMH, 2025). Overall, China remains a key market for LVMH, where heritage, experiential retail, and the curated offerings of the Maisons (from fashion to jewelry to beauty and wines and spirits) fuel the Group's desirability and growth. Among other LVMH owned brands, Dior maintains a strong presence in the top ten brands on Douyin and uses its own channels such as WeChat for exclusive sales, avoiding third-party platforms (Wang & Fang, 2020, p.3). Finally, the group also includes brands such as Celine, Loewe, Fendi, Berluti, Givenchy, Marc Jacobs, and Sephora, which compete in various segments. Fendi, for example, has used collaborations with Pokémon to attract a younger audience (Daxue Consulting, 2024, p. 19).

Kering: Kering remains a leading luxury player with strong exposure to Asia: in 2024, the Asia-Pacific region (excluding Japan) represented the highest regional share of revenue, at 30% (Statista, 2025) (in the first half of 2024 it was ~32% and in the first half of 2025 ~29%, according to Kering (2025, first-half report, p.3).

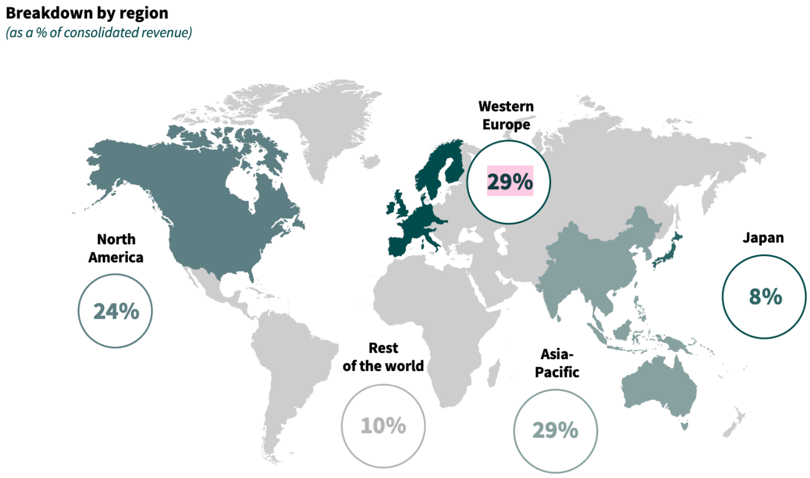

Figure 17: Kering – Revenue Share by Region (2024)
Source: Kering (2025)

In a more challenging environment, 2024 revenues stood at €17.2 billion (-12% y/y) and management accelerated a transformation program – more distribution selectivity, greater operational efficiency and strengthening brand positioning – to bring back sustainable growth (Kering, 2025, annual report, p.6). The portfolio remains unbalanced towards Gucci, which alone accounts for 44% of the Group's revenues in 2024 (Statista, 2025, p.22). In China, Gucci is strongly targeting the Millennial/Gen Z cohorts with a digital-first strategy focused on sCRM and "private domain" and on the activation of E-commerce on Tmall, to support a frictionless omnichannel journey (Daxue Consulting, 2024). At the same time, the brand experienced a commercial bottleneck which prompted Kering to initiate a change of direction: strengthening of leadership (new CEO of Gucci) and creative/product redefinition in the main Maisons (You, 2024, p.75). The marketplace push is also visible in the performances on Tmall: between October-November 2023, the "it-bags" of Gucci, Saint Laurent and Balenciaga appear steadily in the best-seller lists (e.g. GG Marmont, Niki, Hourglass), signaling resilient demand for premium leather goods (DLG x Re-Hub cit. in Daxue Consulting, 2024, p.7). Balenciaga also benefited from good traction in leather goods, according to Kering's end-2024 updates. Finally, Bottega Veneta – another key asset in the portfolio – closed 2024 with comparable growth and is leveraging immersive technologies on the Tmall Luxury Pavilion (3D visualization with 360° zoom) to elevate the shopping experience and digital conversion (Kering, 2025; Daxue Consulting, 2024).

Richemont: Richemont is one of the strongest conglomerates in high-end jewellery and watches and maintains a structural exposure to Asia: in FY2025, Asia-Pacific represented 33% of the group's sales (down from 40% the previous year, due to weak demand in China/Hong Kong/Macau), confirming itself as its first regional market (Richemont, 2025, p.6).

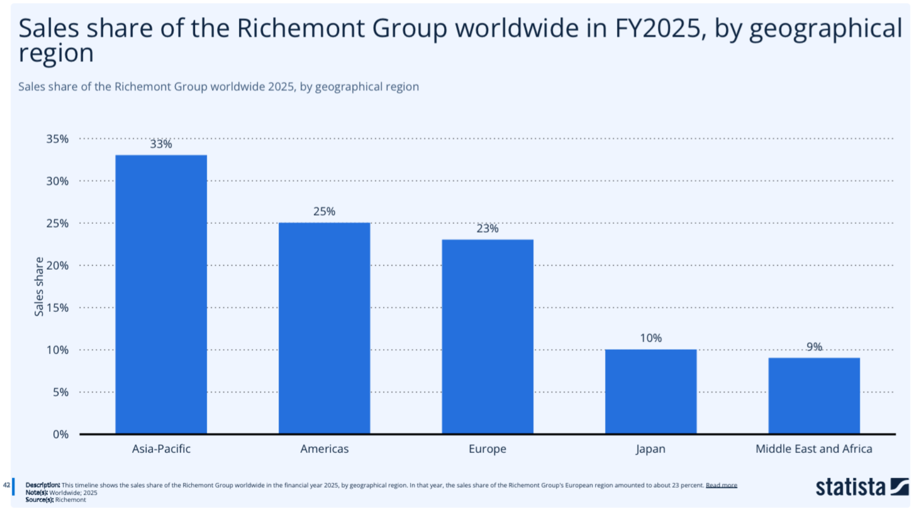

Figure 18: Richemont – Sales Share by Geographic Region (FY2025)
Source: Richemont via Statista (2025)

Supporting this category leadership, the high jewelry divisions (Cartier and Van Cleef & Arpels, with Buccellati and Vhernier) outperformed the rest of the portfolio in 2024–2025, with operating margins close to 32% and sales rising despite the luxury slowdown in China (Spencer, 2025). In key markets linked to Chinese demand, Richemont holds leading positions: in Hong Kong it is the leading group by share among the top luxury brands (≈34% in 2023), in a context dominated by the "Luxury Watches & Jewelry" category (57% of the local market) (Statista Market Insights, 2024, p.115). Even at the sector level, independent estimates place Richemont among the top two players in the Swiss watchmaking industry (≈18.7% share in 2023), confirming its strength in the "hard luxury" sector (Morgan Stanley & Luxe Consult, 2024). On the brand and China front, Cartier combines popularity and "localization": the renovated flagship in Chengdu integrates local cultural elements – from the city-inspired palette to the dedicated Tea

House—for an experience consistent with the Maison's codes and local customer preferences (CPP-Luxury, 2022). In parallel, Cartier accelerated its digital presence with the opening of its flagship on Tmall Luxury Pavilion (January–February 2020), activating exclusive launches and services to consolidate coverage and CRM in cities without a physical network (WWD, 2020). The rest of the portfolio strengthens its presence in the country: Montblanc (writing and premium leather goods), Chloé (ready-to-wear and accessories), Vacheron Constantin (fine watchmaking) and Van Cleef & Arpels (iconic jewelry) constitute relevant assets to cover different demand segments and price ranges, with further expansion and remodeling of retail in high-traffic Asian hubs (Statista Market Insights, 2024).

2.4.2. Independent Luxury Brands and Other Global Actors

Chanel and Hermès: Chanel and Hermès are perceived in China as very high-end brands, with a cultural and commercial influence above the industry average: in the "brand vitality" metrics and in the main digital touchpoints (WeChat, E-commerce platforms) the leading fashion houses are those that know how to drive aesthetics, ride megatrends and "connect" to the local culture – dimensions in which Chanel and Hermès traditionally excel (Tencent Marketing Insight & BCG, 2024). In terms of pure awareness, Chanel has the highest recognition among Chinese consumers: 87% of respondents say they are familiar with it (Rakuten Insight survey, July 2024, reported by Statista). (Statista, 2025, p.20). Hermès, for its part, is synonymous with exclusivity and controlled access: its "managed scarcity" strategy and focus on VICs are reflected in selective distribution policies (including boutiques dedicated to top customers in Asia) and a calibrated retail network, while on Chinese social media, the Maison favors highly curated channels like Xiaohongshu to showcase craftsmanship and brand culture (Statista Market Insights, 2022; PwC, 2024). At the same time, physical expansion has included fast-growing cities: Hermès is present in Changsha (IFS), evidence of its push beyond traditional Tier-1 hubs. Overall, the combination of very high brand equity (Chanel) and a model of scarcity and hyper-curated experience (Hermès) consolidate for both a structural “market weight” in personal luxury in China.

Burberry: Burberry is a British brand with a solid presence in China: already in 2011 it operated 58 directly operated stores in mainland China; today it maintains a large retail footprint (418 global DOS as of 28 June 2025) and continues to invest in Chinese hubs such as Shenzhen, where it inaugurated the first luxury "social retail store" in partnership with Tencent, integrating phygital paths and in-store engagement mechanisms via QR/WeChat (Burberry, 2025, p.1). On the digital front, Burberry was among the first fashion houses to leverage WeChat to create communities and proprietary CRM: it launched a Mini Program with exclusive drops as early as 2018 (Qixi/Chinese Valentine's Day) and uses the WeChat ecosystem for content, clienteling and omnichannel activations that link discovery, engagement and conversion (Smith, 2018). In line with this approach, the brand emphasizes personalization services, including embroidery/monogramming of initials on scarves and small leather goods – services available online and in boutiques and often integrated or amplified via Mini Program/WeChat.

Prada: In 2025, digital media activity in China confirms a very concentrated picture: in luxury fashion, Prada led online advertising spending in the months of January–February, with an ad placement index of 5.26 million, ahead of Burberry and Louis Vuitton, as ì (Statista/iResearch, 2025, p.17)

Longines, Rolex & Swatch Group: In the jewelry & watches vertical, Longines led the way in the same period with 6.03 million index points, while at the corporate level, Swatch Group is among the top spenders in personal luxury (9.6 million), and Rolex is among the leading investors in the category (Statista/iResearch, 2025, p.16). Longines' digital strength is also reflected in social media: on Douyin, it consistently ranked at the top (2nd place in the week of August 17–23, 2025) in the brand index, demonstrating its recognition and traction among the Chinese public (Statista/Ocean Engine, 2025). Rolex, in addition to its relevance in media investments, enjoys high visibility among consumers (top 10 for monthly digital reach as of December 2024) and, historically, significant levels of ownership among wealthy clients (QuestMobile via Statista, 2024; Degen, 2010).

Luxury Beauty Sector: In luxury beauty, the market is led by large groups: L'Oréal S.A. leads online advertising in the personal luxury space in the first two months of 2025

(119.5 million index points), with Estée Lauder Companies in third; at the brand level, Lancôme (L'Oréal) leads the segment, followed by SK-II and Estée Lauder, with Helena Rubinstein and YSL in the top five (Statista/iResearch, 2025, p. 14).

2.5. Consumer behavior

Chinese luxury consumption has evolved through four psychological phases shaped by China's economic ascent, digital acceleration, and generational turnover, while constantly negotiating the tension between Confucian restraint and modern conspicuousness (Degen, 2010). In the wake of the pandemic, Chinese consumers have become more discerning, value-conscious, and domestically oriented in their purchasing behavior. Economic uncertainty and slower growth have dampened consumer confidence, yet demand for quality and premium products remains resilient (McKinsey & Company, 2023, p.5) Notably, consumers are *not* uniformly "trading down" to cheaper goods; instead, they are finding smarter ways to obtain preferred brands at better prices – from hunting discounts on e-commerce to leveraging group buys and livestream flash sales (McKinsey & Company, 2023, p.5). Digital shopping and research became even more ingrained during COVID lockdowns, as consumers turned to online channels for both necessities and indulgences.

Crucially, the pandemic period accelerated a shift toward local brands and products. With international travel halted and global supply chains disrupted, Chinese shoppers increasingly "looked inward" for their needs. National pride and self-reliance were amplified by China's swift COVID response and the "dual circulation" economic narrative, leading many consumers to prefer domestic options over foreign brands. As a result, many foreign brands that once enjoyed premium status saw their edge diminish. According to McKinsey's 2023 China consumer report, Chinese companies now offer products as good as, if not better than, foreign competitors, and the days when consumers would pay extra merely for a foreign label "are over" (McKinsey & Company, 2023) The preference for local brands has accelerated in recent years, driven not only by nationalism but also by the ability of domestic firms to react faster to trends and tailor offerings to Chinese tastes. In short, post-COVID Chinese consumers are more quality-conscious, digitally savvy, and inclined to buy Made-in-China, creating a more competitive landscape for international brands.

2.5.1. The Four Phases of Consumer Psychology Evolution

Initial Entry Period (1992–2003): When Western luxury brands first entered China in the early 1990s, most Chinese consumers had virtually no concept of what "luxury" meant. At this time, China's socialist planned economy had only recently opened up, and material scarcity meant luxury goods were unfamiliar and their high prices seemed unjustified. A new class of *nouveaux riches* emerged from the economic reforms, eager to display their newfound wealth and social status through conspicuous consumption (Atsmon, Dixit, & Wu, 2011). Under China's traditionally secular, status-conscious culture, these early affluent consumers felt compelled to externalize their success by buying status symbols. Yet this desire for ostentation clashed with deeply rooted Confucian values of thrift and modesty (Antioco, 2025). Many Chinese viewed overt extravagance negatively, as vanity or waste. Thus, consumers experienced a tension between flaunting wealth and showing restraint. Luxury brands entering China at this time often struck a balance – products needed to signal prestige, but not appear too gaudy. Indeed, Chinese buyers favored items that balanced ostentation with subtlety, reflecting dignified elegance rather than brash display (Reuters, 2013). In short, the initial period was defined by low awareness of luxury, a thirst for status, and a cultural unease about unbridled opulence.

Golden Development Period (2004–2012): As China's luxury market expanded in the 2000s, consumer psychology matured markedly. Chinese shoppers developed a more sophisticated understanding of luxury, moving beyond logo obsession to a deeper appreciation of brand heritage, storytelling, and artistic value. In this "golden age," buyers still cared about prestige, but increasingly sought intrinsicvalue in their purchases – they wanted to know the brand's history, craftsmanship, and what owning the product meant. Knowledge deepened, but logo salience remained high (Kim et al., 2019). For example, consumers started valuing corporate stories and brand essence over just conspicuous logos. At the same time, luxury buying became highly social. "Face consumption," the use of luxury goods to maintain or elevate one's social prestige, became a prominent force. Gifting high-end items to build business and personal relationships – a practice known as "relational consumption" – took hold as a cultural norm. In this period, presenting a status gift (like a luxe watch or handbag) was seen as a way to honor others and solidify one's guanxi (social ties). The concept of *"face"*(mianzi) thus strongly influenced purchasing decisions, with consumers deriving satisfaction from the recognition and respect these goods conferred. *Face* refers to prestige and respect in social networks, and it profoundly influences consumption choices. Research identifies *face* and *guanxi* (personal relationship networks) as key drivers of materialism in China (Sun et al., 2014, p. 579). Acquiring expensive, prestigious goods confers social prestige and helps one "gain face," while gift-giving of luxury items is a strategic tool to cultivate *guanxi* by honoring others. In summary, Chinese luxury consumers during 2004–2012 became more discerning: they looked past mere bling, seeking brands with rich heritage and products that conferred both personal pleasure and social capital.

Era of "Chinese-isation" (2013–2019): After 2013, China's luxury landscape entered a phase of localization and a subtle shift in values. A government anti-corruption campaign cracked down on extravagant gifting, which had a chilling effect on luxury gift-giving and forced brands to adapt. With gifting subdued, luxury marketers refocused on experiences and local relevance. Consumers began placing greater importance on word-of-mouth reputation and peer recommendations (D'Arpizio et al., 2014). In fact, a 2017 McKinsey survey found that recommendations from friends and family were the number one factor influencing luxury purchases, directly driving about 30% of sales (Bu et al., 2017, p.4). Chinese shoppers became less swayed by glossy ads and more by what their close circle and online communities were saying. During this time, brand experience also emerged as critical. Especially among younger generations, consumers craved personal engagement and loyalty to brands that offered memorable interactions. Nearly half of post-90s (Millennial) and post-00s (Gen Z) consumers reported sticking to a few favorite brands, and this loyalty was strongly linked to positive brand experiences. Luxury brands responded by localizing their strategies: collaborating with Chinese designers, incorporating Chinese cultural elements more authentically, and tailoring campaigns to Chinese festivals and social media. Shoppers in this era expected luxury brands to meet them where they are – whether that meant having a fun Weibo campaign or offering exclusive in-store VIP events in Beijing and Shanghai (Kim et al., 2019). In essence, 2013–2019 was characterized by a more locally attuned and experience-driven consumer mindset, with trust fostered through community and personalized brand relationships.

Global Leadership Era (2020–Present): By 2020, Chinese consumers had become the center of gravity for the global luxury market. Even amid the disruptions of the COVID-19 pandemic, China's domestic luxury sales surged, making China the world's growth engine for high-end goods. The primary motivation for luxury purchases in this era has shifted decisively toward self-reward and personal pleasure, rather than purely status or social pressure. China's Millennials and Gen Z – now the dominant luxury consumer groups – view luxury as a means of self-expression, individuality, and even self-care. Unlike their predecessors who bought Louis Vuitton for the logo, these young consumers seek items that reflect their personal identity and values. They are drawn to niche brands and limited editions that set them apart from the crowd (Daxue Consulting, 2024, p.11). In fact, today's trendsetters often pride themselves on discovering indie designer labels or special collaborations that their peers haven't heard of. Luxury consumption has become less about "I've made it" and more about "This is me." As Glyn Atwal (2022) notes, embracing individualism is key – successful brands collaborate with local artists or take bold creative stances to resonate with China's youth. Moreover, this generation is far less brand-loyal; they will readily switch to a new label if it offers a design or ethos that feels unique and authentic to them.In summary, the post-2020 Chinese luxury consumer is empowered, savvy, and self-oriented – using luxury goods not just to signal status, but to craft an identity and experience that feels personally enriching.

2.5.2. The Shift from Overseas to Domestic Consumption

Up until 2019, Chinese luxury shoppers did the majority of their spending abroad – roughly 60% of luxury purchases by Chinese consumers were made outside of mainland China (Ap, 2024). Wealthy Chinese tourists would flock to Paris, Milan, Tokyo, or Hong Kong to buy luxury goods at lower prices and broader selection. A significant price gap (often 30–50% cheaper overseas due to taxes and duties) and the cachet of shopping abroad fueled this trend (Hall, 2023). Additionally, traveling overseas to purchase luxury was itself a status experience – it combined the joy of tourism with the thrill of a shopping spree. In 2019, only about 40% of Chinese luxury spending happened domestically, as many consumers still preferred the "authenticity" of buying in a brand's home country or duty-free haven. COVID-19 dramatically reversed this pattern. With international travel halted, Chinese consumers turned inward and luxury spending "repatriated" to the mainland. By 2023, roughly 70% of Chinese luxury purchases were taking place domestically in China, versus only ~30% overseas (Ap, 2024). In fact, China's domestic luxury market more than doubled between 2019 and 2021, while overseas spending by Chinese plummeted. Even now, with travel resuming, Chinese shoppers have not returned overseas in the same numbers. Brands' heavy investments in China – opening new flagship stores, improving customer service, and hosting local fashion shows during the pandemic – have paid off by making the domestic shopping experience more attractive (Hall, 2023). Structural factors are sustaining this "great repatriation." The price gap has narrowed significantly: import taxes were cut in 2018–19, and duties on luxury goods fell, so that many items cost only ~10–20% more in China than in Europe (versus 50%+ before)- Moreover, Hainan island's development as a duty-free shopping paradise has kept Chinese money onshore – Hainan's duty-free sales jumped to ¥43.8 billion in 2023 and accounted for an expanding share of domestic luxury spending. The convenience of local e-commerce and stores, combined with ongoing travel hurdles (visa backlogs, limited flights), means Chinese consumers now do the bulk of their luxury shopping at home. Notably, overseas spending by Chinese is still *well below* pre-COVID levels: in 2023, their luxury spending in Europe was only ~40% of 2019 levels, and about 65% of 2019 levels in broader Asian destinations (Bain & Company, 2024). This suggests that even as Chinese tourists slowly return abroad, a large chunk of luxury demand has been permanently repatriated to the China market. Luxury brands now recognize that success globally hinges on winning in China itself, rather than relying on Chinese tourists in foreign boutiques.

2.5.3. Modern Chinese Consumer

China's luxury boom is now driven overwhelmingly by young adults. Millennials and Gen Z collectively form the engine of the market's growth. In fact, consumers born in the

1990s accounted for about 61% of total Chinese luxury shoppers in 2022, by one estimate. These digitally native, well-educated young people approach luxury very differently than older generations. For them, high-end goods are less about pure status and more a form of self-expression and lifestyle. They tend to choose brands aligned with their personal identity, favoring those that feel authentic or "cool." Consequently, younger buyers are less loyal to any single heritage brand – they are willing to jump to a new label that offers unique designs or speaks to their values. Limited-edition drops, streetwear collaborations, and trendy niche brands (even domestic Chinese designer labels) have strong appeal for this cohort (Daxue Consulting, 2024). For example, a Gen Z luxury consumer might just as eagerly purchase a special-edition sneaker by a cutting-edge Chinese designer as a classic monogram handbag from Louis Vuitton. What matters is that the product reflects their individual taste. This generational shift has pushed brands to innovate faster, embrace Chinese cultural elements (to ride the "Guochao" trend of national pride), and engage through digital platforms that young people frequent. While the masses contribute volume, a relatively small elite contributes disproportionate value in China's luxury market. China is now home to around 780,000 HNWIs (individuals with ≥US$1 million in assets), and this group is expanding steadily. These affluent consumers are remarkably resilient even in economic downturns – luxury spending among HNWIs tends not to falter, even if the broader middle class pulls back (Daxue Consulting, 2024, p.10). In surveys, a majority of wealthy Chinese plan to *increase* their luxury spending: for instance, 56% of China's millionaires said they expect to spend *more* on personal luxury goods in the next three years (Daxue Consulting, 2024, p.10). Because of this, luxury brands are increasingly focusing on Very Important Clients (VICs) – essentially the top tier of spenders who drive a huge share of revenue. It's reported that these VICs (sometimes defined as the top 1–2% of customers) now account for roughly 42% of luxury sales in China (Bain & Company, 2024, p.3). These clients buy frequently and at high price points, providing a stable backbone of sales. Brands court VICs with extreme personalization: private clienteling via one-on-one WeChat chats, invitation-only events, exclusive VIP lounges and boutiques, and bespoke gifts and services. The strategy is to make top spenders feel uniquely valued so they remain loyal. This focus on the ultra-wealthy segment is a hedge against economic volatility – as the middle segment fluctuates, HNWIs can reliably propel growth.

Consumer behavior in China also varies by city tier and region. In the established luxury centers of Tier-1 cities (like Beijing, Shanghai, Guangzhou, Shenzhen), shoppers are generally more cosmopolitan and discerning. These customers prioritize uniqueness, sophistication, and brand values over mere logo recognition. They are less price-sensitive and more willing to explore niche or emerging labels. For example, a fashion-forward Shanghai consumer might seek out an avant-garde independent designer piece, or care deeply if a brand's values align with sustainability or social causes. In contrast, in lower-tier cities (the burgeoning Tier-2 and Tier-3 urban areas), the wave of new luxury consumers tends to gravitate toward the most famous, "status" brands. These shoppers often prefer classic, high-profile luxury logos – the Chanels, Guccis, and Louis Vuittons – which visibly signify prestige (Daxue Consulting, 2024). Owning a recognizable luxury item serves as a badge of success in their social circle. Additionally, consumers in these lower-tier markets can be more responsive to promotions and installment payment plans. They appreciate when brands offer special discounts, holiday sales, or entry-level products, as price is a somewhat bigger factor in their purchasing decisions. It's worth noting that the luxury market is rapidly penetrating these lower-tier cities, thanks to e-commerce and store expansion, bringing a larger base of new customers into the fold. Brands are therefore adopting bifurcated approaches: edgy marketing and exclusive collections for top-tier cities, versus education, accessibility, and aspirational messaging for rising cities.

2.5.4. "Guochao" 国潮

Guochao encapsulates the trend of Chinese consumers embracing products that celebrate Chinese identity and culture. The movement took off in the late 2010s and gained explosive momentum during the COVID-19 pandemic (Pattinson, 2023). Travel restrictions and global turmoil fostered a collective pride in China's heritage, as well as a newfound appreciation for local brands. Consumers, especially youth, began seeking out fashion, cosmetics, and lifestyle products incorporating traditional Chinese symbols, designs, and stories. For example, domestic companies infused products with classical motifs and even revived traditional clothing (like hanfu attire), blending nostalgia with modern style. Surveys indicate that by 2021, interest in Chinese national brands had risen to three times that of foreign brands, and 75% of Chinese consumers were incorporating

Guochao elements into everyday style (Zheng, 2023). This wave has only continued into 2022 and beyond, showing Guochao is not a passing fad.

Gen Z (those born roughly 1995–2010) are a driving force behind Guochao. This cohort of over 260–270 million young Chinese grew up in an era of prosperity and digital connectivity, and they tend to be proudly Chinese in outlook (Danziger, 2023). Unlike older generations, China's Gen Z are the first generation of true native consumers who do not automatically equate foreign brands with superior quality. To them, "Made in China" is a badge of honor rather than a stigma. Studies note that these young, "nationalistic and exacting" shoppers can make or break Western brands, as they demand cultural relevance and alignment with Chinese pride (Bloomberg, 2022 as cited in Danziger, 2023). Gen Z and millennial consumers eagerly champion home-grown labels on social media and are open to trying new Chinese designers and products that resonate with their cultural identity.Their strong self-confidence and desire for self-expression translate into supporting brands that reflect Chinese stories – a form of consumer patriotism (Daxue Consulting, 2023). Indeed, many young consumers actively share Guochao purchases and traditional culture content online, further spreading the trend (Daxue Consulting, 2023), as seen in Figure 19.

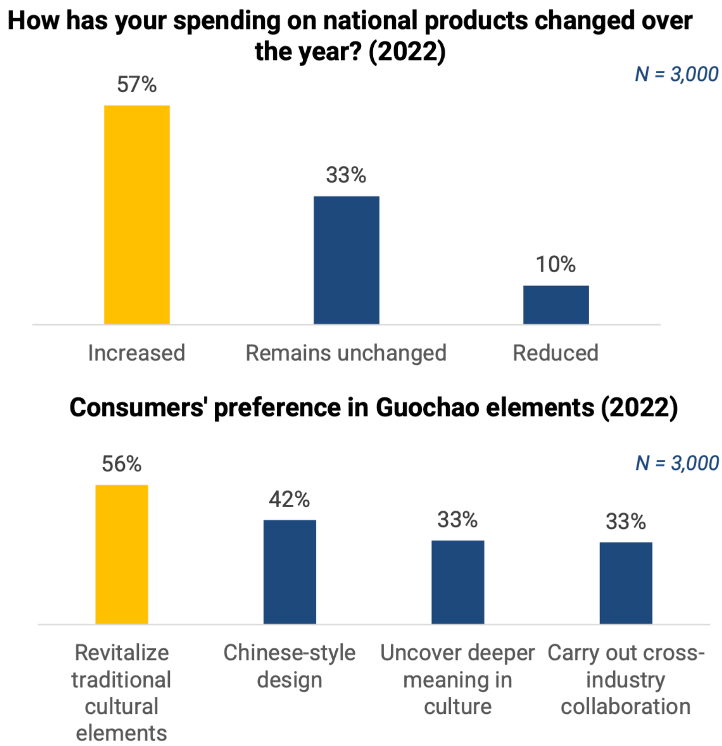

Figure 19: Chinese Consumer Trends 2022: Growing Spend on National Products and Key Guochao Preferences

Source: Daxue Consulting (2023), p.13

China's unique digital ecosystem has been a catalyst for Guochao's spread. Domestic social media and e-commerce platforms – from WeChat and Weibo to Xiaohongshu (RED) and Douyin (TikTok) – are where trends explode. Influencers (wanghong or KOLs) enthusiastically promote Guochao products via short videos, live streams, and online forums. During the pandemic, such digital channels became the primary way to discover and purchase new brands. Influencers tapping into patriotic sentiment helped Guochao brands gain credibility and viral popularity, fostering a sense of collective pride in "buying Chinese". The Chinese government has also indirectly encouraged this cultural consumption revival – for instance, by promoting "intangible cultural heritage" (feiyi) in design and media, which has been dubbed Guochao "2.0" as of 2024 (Jing Daily, 2024). The result is a consumer culture where blending tradition with technology is chic. From tech gadgets with New Year's motifs to streetwear featuring ancient mythology, products that weave modern functionality with Chinese cultural elements are thriving. Guochao thus represents a convergence of national pride, youth culture, and digital media that is reshaping Chinese consumption.

CHAPTER III: CHINA'S RISK CONTEXT

"Aything can happen in China at anytime"

- Denis Morisset, Professor at ESSEC, Fudan and Peking Universities

3.1. Political Risks

China has a unique political landscape, dominated by an authoritarian single-party regime that can strongly influence the market. Freedom House (2024) classifies China as "Not Free" with a score of just 9/100 in terms of political rights and civil liberties. This implies a low degree of transparency and freedom of expression, factors that can translate into political risks for luxury companies. Foreign companies operating in China must navigate an environment where the government can suddenly intervene with political or regulatory campaigns. For example, initiatives such as the anti-corruption campaign (which already affected luxury goods in 2013, especially watches and fine spirits) or the rhetoric of "common prosperity" can discourage conspicuous consumption and trigger sudden drops in demand. In addition, geopolitical tensions affect the market: strategic competition and the trade war between China and the United States have led to tariffs and technological sanctions (Coface, 2023), increasing uncertainty for Western brands.

3.1.1. Geopolitical Relations and Commercial Repercussions

European luxury brands now face a more complex and perilous landscape shaped by external geopolitical risks. Geopolitical tensions are no longer a peripheral concern, but a central operational and reputational risk for European luxury brands. Strategic rivalry between global powers directly impacts market access, supply chain integrity, and brand narratives. This new paradigm requires a thorough analysis of how global power dynamics impact the very foundations of the luxury sector. The trade conflict between the United States and China is a primary driver of global economic uncertainty, with direct consequences for the luxury sector. The imposition of tariffs and subsequent retaliatory measures have disrupted global supply chains, dented business and financial market confidence, and ultimately reduced global GDP (Cerutti, Gopinath, & Mohommad, 2019). While European brands are not the primary target of US tariffs, they operate within this disrupted ecosystem, facing increased logistics costs and volatile consumer confidence. The conflict creates a "contagion effect" in which the economic fallout is borne by consumers and producers globally, not just in the United States and China (Cerutti et al., 2019). The main impact of this trade war lies not so much in direct tariffs, but in the erosion of market stability and investor confidence. The conflict creates a volatile environment in which consumer sentiment can be rapidly damaged. Historical analysis shows that the stock prices of companies with high exposure to sales in China have underperformed during periods of escalating trade tensions. Since European luxury brands are critically dependent on the Chinese market, the indirect risk to financial markets and the danger of a sudden decline in Chinese consumer confidence due to economic uncertainty pose more significant threats than being directly targeted by tariffs (Woetzel, Ngai, Seong, Ellingrud, Le Deu, Smit, & Wang, 2023). This demonstrates that geopolitical risk is now directly priced into market valuations for exposed sectors such as luxury (Egala, 2025).

There has been a fundamental shift in the European Union's strategic posture toward China. The EU's reclassification of China in 2019 as a "partner, competitor, and systemic rival" marked a turning point (Chen, 2023). This is not mere rhetoric, but the basis of a new "de-risking" policy, aimed at reducing critical dependencies on China (Malhotra & Dutta, 2024, p. 24). However, this strategy proves inherently “unsustainable” because it attempts to separate economic engagement from escalating political and ideological conflicts (Bergsen, 2021). The freezing of the EU-China Comprehensive Agreement on Investment (CAI) following mutual sanctions is a prime example of how political disputes can abruptly derail economic initiatives, creating significant uncertainty for businesses. For luxury brands, this means that the political climate can no longer be treated as a separate variable. The risk of retaliatory measures is acute, as China has demonstrated its willingness to use economic leverage in response to political actions, such as human rights sanctions (Bergsen, 2021, p.17). European companies therefore find themselves navigating an environment where market access can be affected by political factors beyond their control.

3.1.2. Nationalist Boycotts

One phenomenon that has been observed is the increasing frequency of nationalist boycotts against foreign brands. Since 2016, China has seen at least 78 documented cases of boycotts against foreign companies, a sixfold increase compared to the previous 10 years (Nan, 2022). Often, the spark is geopolitical: decisions by Western governments or statements by companies on politically sensitive issues spark outrage on Chinese social media, which is also promoted by state media or Party youth organizations (such as the Communist Youth League). A striking example was in March 2021, when in response to Western sanctions on Chinese officials over the Xinjiang case, brands such as H&M and Nike that had taken a stand against the use of Xinjiang cotton were overwhelmed by public anger: Chinese celebrities terminated their endorsement contracts, H&M products were removed from Chinese marketplaces, and stores were boycotted (Pårup, 2022). In just a few months, H&M lost almost its entire presence in China, falling from fourth global market to disappearing from the top 10, with the closure of ~140 stores and such a collapse in sales that it had to make a 'quiet comeback' only after a year (Pårup, 2022). Dolce & Gabbana also had a similar experience: in late 2018, the luxury fashion house sparked a firestorm in China with a series of short advertising videos that many viewed as culturally offensive. The campaign was titled "Eating with Chopsticks" and featured a Chinese model in D&G clothing struggling to eat Italian food, such as pizza, spaghetti, and a large cannolo, with chopsticks, a portrayal that Chinese netizens immediately criticized as a racist caricature of Chinese culture (Jia, 2022). The controversy escalated when private Instagram messages, written by Stefano Gabbana, leaked online, referring to China in highly insulting terms, such as calling it "China Ignorant Dirty Smelling Mafia", which further increased public anger, despite the co-founder stating that his account was hacked. The backlash was severe: outraged consumers and influencers launched nationwide calls to boycott D&G, leading to thousands of the brand's products being pulled from major Chinese e-commerce platforms. Furthermore, the D&G runway show in Shanghai was forcibly canceled amid public outrage, as Chinese celebrities and models withdrew and authorities officially halted the event. The People's Daily states that if a company "is not willing to understand China, eventually it will lose the China market and the benefits arising from China's growth" (Bloomberg News, 2018). As a result, the brand's sales in China plummeted, with Asia-Pacific revenue falling and the company forecasting continued decline for the next year. This incident underscores how culturally insensitive marketing or political missteps, even unintentional, can trigger nationalist anger and government scrutiny, effectively shutting a brand out of its most critical growth market. A poorly calibrated social media post, a map that doesn't show Taiwan or Hong Kong as part of China, an unfortunate comment by a Western designer or spokesperson on Chinese issues, events like these have affected other luxury brands in the past (for example, Dolce & Gabbana suffered a devastating boycott in 2018 for an advertisement deemed offensive to Chinese culture). Gucci has also had minor global incidents (e.g., in 2019 for a sweater interpreted as insensitive to racial issues, or a 2018 campaign featuring a model with eyes considered “too small” that sparked criticism in China), but nothing comparable to the H&M or D&G cases.

3.1.3. Economic Nationalism and Domestic Competition

The risk of market share erosion in China is now driven not only by consumer sentiment, but also by the superior operational capabilities of domestic competitors. This creates a structural challenge for foreign companies that goes far beyond simple brand preferences. Guochao (国潮) poses a multifaceted risk. Born as a government-backed cultural movement, it has evolved into a genuine consumer preference, particularly among younger generations (post-90s and post-2000s) who prioritize national sentiment in their purchasing decisions (Zhang & Fu, 2022, p. 392). This sentiment has a tangible impact on the market: already in 2019, domestic brands accounted for 72% of shopping carts on Chinese e-commerce platforms, and their market share continued to grow in 2023 in sectors such as clothing, cosmetics, and electronics (Zhang & Fu, 2022, p. 394). The success of local brands such as Florasis, which draw on classical Chinese culture to create a unique aesthetic and brand identity, is emblematic of this shift. Chinese companies are shifting from a “Made in China” model to a “Created in China” model, transforming the global perception of national identity and style (Wang, 2022, p.3). For foreign companies, this means that authentically replicating cultural resonance has become extremely difficult, if not impossible.

Beyond consumer trends, the operational risk posed by local competitors is even more significant. Chinese companies are not simply cheaper; they are often faster and more effective. They have much shorter decision-making cycles because key decision-makers are on the ground and have deep knowledge of the market (CKGSB, 2024). This allows them to recognize and respond to the rapidly changing needs of Chinese consumers much faster than MNCs, which often rely on hierarchical and offshore approval processes. In addition, local companies demonstrate superior execution in sales and marketing, particularly in China's native digital ecosystem. Their mastery of marketing through Key Opinion Leaders (KOLs) is considered "out of reach" compared to Western approaches. These companies also benefit from economies of scale in an often protected domestic market and significant government subsidies, which enable them to rapidly gain market share and innovate in sectors such as electric vehicles (EVs) and new energy appliances (CKGSB, 2024).

The combination of the 'Guochao' sentiment and the operational agility of local companies creates a structural, non-cyclical risk for MNCs. The long-held idea of a "foreign premium" – the perception that foreign brands are inherently superior in quality or status – is rapidly eroding and, in many sectors, has completely vanished. A vicious cycle has been triggered: local companies, being more agile, are able to capitalize on the 'Guochao' trend more effectively than MNCs. They can launch culturally resonant products more quickly, reinforcing their image as the authentic choice. This creates a compound disadvantage for MNCs. Not only do they face headwinds from consumer nationalism, but their own operating models, slower decision-making, less nuanced digital marketing—prevent them from competing effectively. The strategic implication is that MNCs can no longer compete simply by being "Western." They must radically redesign their operations in China to match local speed and cultural fluidity, or risk being relegated to high-end niche segments where the foreign premium may still hold, completely ceding the mass and middle markets (Woetzel et al., 2023. This poses a risk to the entire business model, not just the marketing department.

3.2. Institutional and Regulatory

The Chinese regulatory environment is constantly evolving and presents significant challenges for foreign brands, posing regulatory and institutional risks. Governance in China scores poorly in global indices: for example, the World Bank's Worldwide Governance indicators show low scores for Rule of Law and Regulatory Quality, indicating an unpredictable legal framework and potential disparities in the application of rules, as seen below.

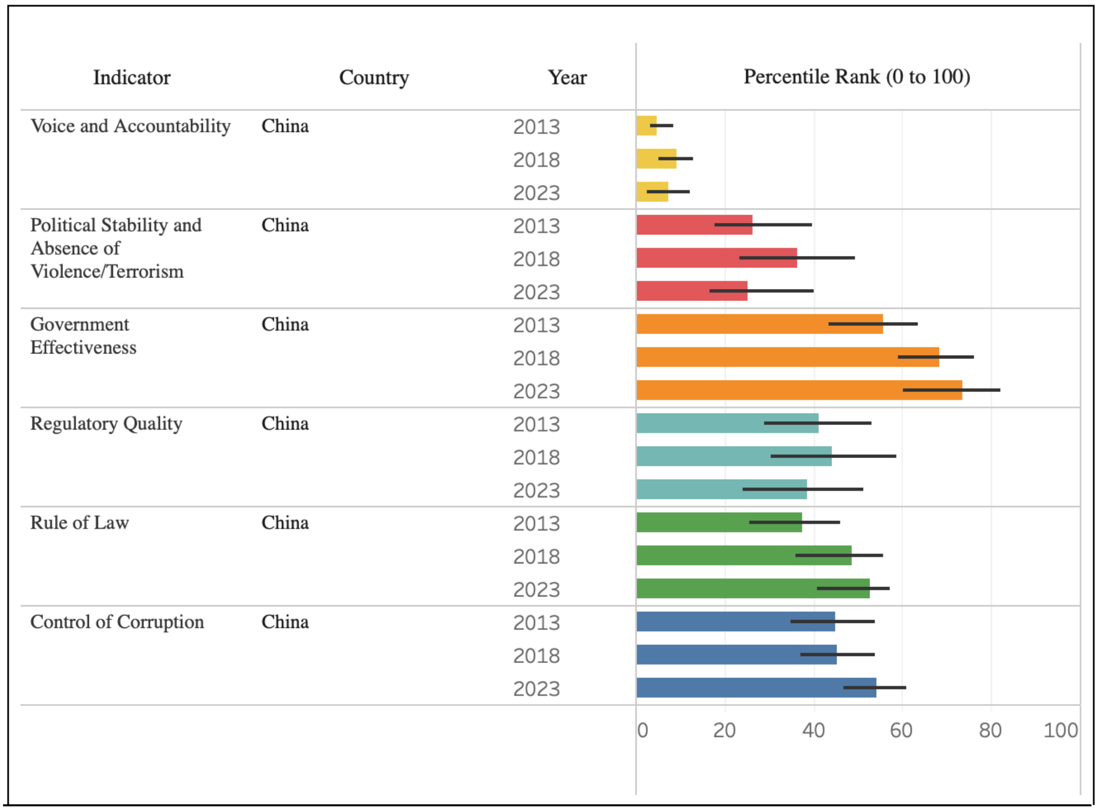

Figure 20: China – Worldwide Governance Indicators (WGI): Percentile Ranks by Dimension, 2013–2018–2023 (90% CIs)
Source: World Bank (2024)

Luxury brands operating in China must be prepared for regulatory swings on issues like import duties, customs rules, and e-commerce taxes, which can arise abruptly and reshape consumer buying patterns virtually overnight.

Surveys of foreign firms cite regulatory unpredictability and uneven treatment as concerns, for example, the American Chamber of Commerce in China accounts that, in 2024, 32% report unequal treatment vs. local firms; 60% report market-access-related unfair treatment (top area) (AmCham China, 2025, pp.5, 59-61). This reflects a reality where regulations and policies can sometimes favor domestic companies, while foreign operators face barriers to market access and selective enforcement of rules. For example, bureaucratic approval procedures, joint venture requirements in sensitive sectors, and licensing controls can delay the expansion of a luxury brand's retail outlets or digital activities.

In addition, intellectual property protection in China, while improved in recent years, remains insufficient, and risks remain relevant for luxury businesses: OECD-EUIPO (2025) finds that Mainland China and Hong Kong (China) are the top sources of counterfeits, with the former accounting for about 47% and the latter for about 27% by value of seized fake goods, making a total of 74% in 2020-21. USTR similarly reports persistent bad-faith trademark filings and urges more deterrent-level penalties and sustained enforcement, especially online (USTR, 2025). For luxury brands, this translates into lost sales and damage to their image, as low-quality copies flood the parallel market.

Another critical regulatory front is the digital and data sphere. China has introduced stringent laws on cybersecurity and personal data protection (e.g., Cybersecurity Law, PIPL), which require companies to localize the storage of Chinese user data and submit to possible government inspections. For example, regulations on cross-border data transfers, only recently partially relaxed with pilot measures in 2023, impose complex authorization procedures for sending customer information abroad. This entails additional costs and infrastructure adjustments for international brands, especially those with global e-commerce platforms. From an institutional perspective, the absence of a strong rule of law also means poor protection in the event of commercial disputes: dispute resolution tends to be entrusted to informal negotiations or arbitration, as the judicial system is not completely independent. Coface rates both China's country risk and business climate as B (medium), reflecting these structural uncertainties (Coface, 2023). One positive factor is that the Chinese government, recognizing the importance of foreign investment, sometimes adopts pro-business measures: for example, it has reduced import duties on certain luxury goods and, in 2022, raised duty-free allowances for purchases in Hainan province, encouraging domestic consumption of luxury goods. However, there remains the institutional risk that new regulations will be issued at short notice, such as luxury taxes for redistributive reasons or advertising restrictions, catching companies unprepared.

China has a unique political landscape, dominated by an authoritarian single-party regime that can strongly influence the market. Freedom House (2024) classifies China as "Not Free" with a score of just 9/100 in terms of political rights and civil liberties (Freedom House, 2024). This implies a low degree of transparency and freedom of expression, factors that can translate into political risks for luxury companies. Foreign companies operating in China must navigate an environment where the government can suddenly intervene with political or regulatory campaigns. For example, initiatives such as the anti-corruption campaign (which already affected luxury goods in 2013, especially watches and fine spirits) or the rhetoric of "common prosperity" can discourage conspicuous consumption and trigger sudden drops in demand.

China is an important but difficult market for high-end fashion brands. Chinese shoppers spend more than a third of all luxury goods sold around the world, but this chance comes with big risks in politics, institutions, and the market. China's political and regulatory environment can change rapidly, creating uncertainty for luxury businesses. An example was President Xi Jinping's anti-corruption campaign launched in 2012, which explicitly discouraged extravagant gift-giving by officials, a major driver in luxury demand. In fact, conspicuous gifting and lavish spending by government officials, which once fueled up to half of luxury sales in China, rapidly declined under stricter enforcement (Osnos, 2013). Bain & Company (2013) estimates that growth slowed down from ~30% in 2011 to just 7% in 2012, and an estimated 2% in 2013, particularly hurting categories like pricey watches and high-end menswear that had been popular for gifting (Bain & Company, 2013, p. 3). For example, Swiss watch exports to China fell sharply during 2012–2014 amid the crackdown, with double-digit declines recorded in several periods. Even five years later, sales had not fully returned to their pre-crackdown peak, showing how the campaign changed how people shopped. Interestingly, the political climate has pushed wealthy Chinese buyers to prefer subtlety over lavishness. According to recent reports, China's wealthy people now stay away from flashy goods with lots of logos and instead choose more subtle luxury items to avoid drawing attention to themselves

(Spencer, 2024). Xi's anti-corruption campaign showed how quickly changes in policy can hurt demand for high-end fashion, especially for brands that have always been helped by lavish gifts and visible status symbols. Such policy-driven shifts illustrate how government action can abruptly dampen demand.

China's internal political and ideological shifts are creating a new and more constrained environment for luxury consumption. These are not cyclical downturns, but structural changes aimed at aligning consumer behavior with the Communist Party's long-term goals. These policies represent a coordinated strategy to "relocalize" and control the entire luxury consumption ecosystem.

3.3. Market and Economic Risks

Italian luxury firms are exposed to China's economic and market fluctuations. In fact, China's macroeconomic climate directly influences luxury demand, and recent economic trends have introduced substantial volatility. China has driven a large share of luxury growth globally – by 2018 Chinese shoppers contributed roughly two-thirds of the luxury market's growth – so any slowdown in China's economy directly hits luxury demand (McKinsey & Company, 2019, p.4). A notable example is Prada: the Milan-based fashion house saw three years of declining profits in the mid-2010s, triggered in large part by a slowdown in Chinese consumer spending. Likewise, during the U.S.–China trade war in 2018, Chinese consumer confidence wavered; luxury CEOs like Ermenegildo Zegna reported that geopolitical tensions were psychologically dampening China's appetite for high-end goods (Wong & Daly, 2018). Macro-economic risks such as GDP deceleration, stock market volatility, or currency devaluation therefore pose major threats. In fact, concerns over China's slowing growth and a weakening yuan have periodically spooked the luxury sector. Recent data underscore this volatility. After decades of double-digit expansion, China's GDP growth has decelerated, and the post-Covid recovery has been uneven.

China's luxury market is experiencing a post-Covid cooldown that has challenged the growth assumptions of global brands. After an initial revenge spending surge in early 2023 when lockdowns lifted, the momentum quickly faltered. By 2024, China's domestic luxury sales not only slowed – they contracted for the first time in years. Bain & Company reports that the mainland China personal luxury goods market shrank by an estimated 18–20% in 2024, dropping back to roughly 2020 levels.

This sharp downturn (illustrated in Figure 21) marks a definitive end to the artificial boost from China's Covid-era stimulus and pent-up demand. Key drivers of the slump include low consumer confidence, as discussed above, and a resurgence of overseas shopping by affluent Chinese. With global travel reopening and favorable exchange rates in some markets, many Chinese luxury buyers shifted their spending to places like Europe and Japan in 2023–24, at the expense of domestic stores (Lannes, Xing, & Gu, 2025, p.9). Furthermore, frequent price hikes by luxury brands(with limited product innovation) have made consumers more hesitant, leading some to redirect their disposable income to experiential purchases (travel, dining) rather than luxury goods. The result has been a painful contraction: virtually all luxury categories in China saw sales declines in 2024, from fashion and leather goods to watches and jewelry, with only a few top brands managing any growth.

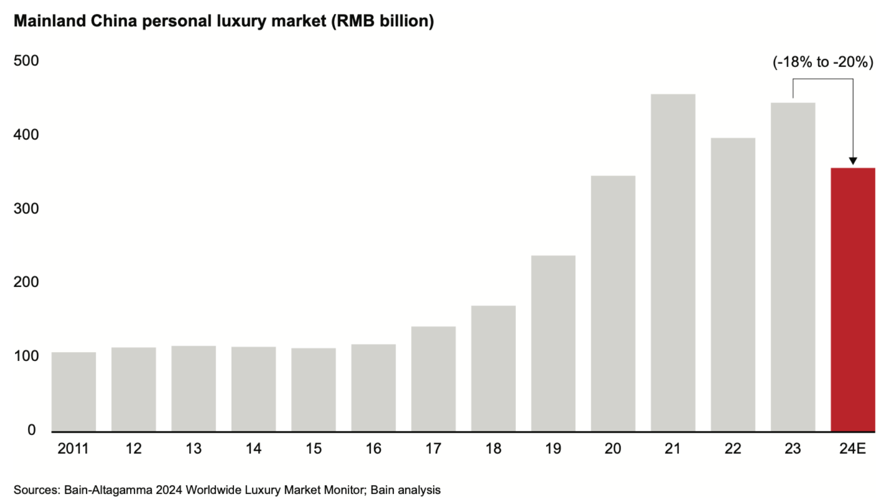

Figure 21: Mainland China personal luxury goods market (RMB billions). After years of rapid growth, China's luxury market declined by 18–20% in 2024, erasing the post-2020 gains and underscoring the volatility of the sector
Source: Bain

This market contraction has rattled the global luxury industry. Analysts estimate that the prolonged China slump wiped out nearly $180 billion in market value from leading luxury firms in the first half of 2024 (Spencer, 2024). Industry bellwether LVMH saw its Asia (ex-Japan) revenues fall 16% year-on-year in Q3 2024, prompting a rare sales warning that sent its stock down to two-year lows (Partridge, 2024). Likewise, Richemont (Cartier's parent) reported a 27% drop in Greater China sales that quarter, and groups like Kering issued profit warnings after steep declines. Intriguingly, not all luxury players fared equally: ultra-high-end labels catering to the truly wealthy have been more resilient. French house Hermès – known for its $10,000+ Birkin bags – was the only major luxury stock to rise in 2024, even managing double-digit sales growth, as its elite clientele remained willing to spend (Spencer, 2024). Similarly, Italy's Brunello Cucinelli bucked the trend with ~15% sales growth by focusing on top-tier shoppers (Spencer, 2024). These exceptions aside, the consensus is that China's luxury market entered a "turbulent waters" period (Lannes, Xing, & Gu, 2025), forcing brands to recalibrate expectations. MarketLine analysts had presciently warned that an overreliance on Chinese consumers would have "negative implications… as the country's economy begins to slow" (MarketLine, 2019). Indeed, 2024's slump has validated those concerns, proving that even in a generally growing global luxury market, China can swing from boom to downturn abruptly.

Furthermore, the macroeconomic conditions of China directly affect luxury market demand because current economic indicators show significant market instability. China experienced double-digit economic growth for many years until its GDP growth rate started to decline while the post-Covid economic recovery showed inconsistent results. The 2023 economic expansion reached 5% which exceeded the government target but fell short of previous performance levels because consumer confidence remained weak (Michigan State University, International Business Center). Multiple economic factors currently create a challenging situation. The youth unemployment rate in 2023 reached its highest point at more than 20% before the government stopped publishing this statistic. Young adults' high unemployment rates reduce their ability to spend money on luxury items because they represent the primary force behind fashion and luxury market trends. The real estate crisis in China affects household wealth and confidence because it reduces the value of their properties. The property development sector experienced a severe decline from 2022 to 2024 which caused developers to default and halted home sales and triggered price decreases in the market. The real estate market collapse affects Chinese consumers because they hold 70% of their wealth in property assets while the property sector generates 30% of the country's GDP (Michigan State University, International Business Center). The deflation of the housing market has reduced Chinese consumers' sense of financial security which makes them less likely to buy expensive items such as designer clothing and jewelry and watches. The combination of poor consumer attitudes because of property market decline and employment worries has led to unsatisfactory luxury sales during 2024. The economic instability has led middle-class consumers to reduce their luxury spending because they practice financial caution when dealing with economic risks (Spencer, 2024). The current market conditions create higher risks for luxury brands because they face reduced growth rates and uneven spending patterns and the possibility of a severe economic downturn that could reduce Chinese luxury product demand.

3.4. Digital Risks

To operate successfully in China, it is essential to understand that platforms such as WeChat, Tmall, and Douyin are not simply marketing channels, but essential infrastructures for commerce. The Chinese e-commerce market is the largest in the world, with revenues reaching nearly $1.5 trillion in 2024, making participation in these dominant platforms a non-negotiable requirement for any brand aspiring to a significant market share.

The WeChat ecosystem, with over a billion active users, integrates messaging, payments, e-commerce (through Mini Programs), and content, establishing itself as a “super-app” that foreign brands must leverage to build a 360-degree view of the consumer. Tmall, operated by Alibaba, serves as the main gateway for international brands, offering a reliable marketplace that simplifies market entry but, at the same time, creates a deep dependency. Meanwhile, Douyin has evolved from an entertainment platform to an “all-encompassing e-commerce” system, directly integrating sales into its content feed and becoming a serious competitor to traditional platforms. The ubiquity of these platforms means that digital operations, from brand visibility to final sales, are entirely dependent on an oligopoly of local tech players.

3.4.1. "Algorithmic Risk"

Major platforms have introduced major changes to their content recommendation systems which will become effective in 2025. Brands that do not adjust their strategies will experience instant drops in their visibility and audience engagement. The new system promotes deep authoritative content that builds communities instead of rewarding basic viral content. The new system demands brands to spend more time and money to achieve success. Brands must now produce valuable content instead of using growth hacking methods to achieve visibility because the new system demands more resources and advanced content strategies from brands. The marketing industry now needs to spend more on high-quality content creation because viral success has become impossible to achieve through simple methods. The new marketing landscape demands brands to spend continuously on premium content creation which changes how marketing teams measure their investment returns. The terms and conditions of platforms remain under their complete control which enables them to make unilateral changes that affect profitability. Tmall introduced an unexpected policy change that raised service fees and security deposits to dangerous levels which endangered the survival of all small and medium-sized stores during that period. The platform demonstrates its ability to control market competition through its unilateral decision-making power. The operational stability of third-party brands faces disruption because of the competitive battles between Alibaba and Tencent. The e-commerce market suffered from Alibaba's decline when WeChat integrated with JD.com because platform alliances between WeChat and JD.com directly harmed Alibaba's market position. The dispute between Apple and WeChat about Mini Program fees shows how platform-level conflicts create problems that affect all brands operating within their systems.

Chinese market success demands brands to establish themselves on multiple non-compatible platforms because each platform operates with its own unique user base and functional approach. The Chinese social media environment consists of multiple platforms which operate independently to serve different user groups and purposes: Weibo functions as a public discussion platform while WeChat enables private communication and Xiaohongshu helps users find products and Douyin supports entertainment-based commercial activities.

A brand needs to develop separate strategies for each platform because they operate with different content requirements. The content strategy for WeChat focuses on publishing lengthy valuable articles yet Douyin succeeds through its short video content and live streaming features. Users on Xiaohongshu need to see content that appears as recommendations from their friends. A brand that fails to maintain momentum on its main platform will lose its ability to reach essential consumer groups. A brand that ignores Xiaohongshu misses out on its main product discovery path for young urban women while a weak Douyin presence means missing the growing social commerce trend.

3.5. Labor Exploitation and Reputational Risks

Another emerging risk area involves ethical and reputational challenges linked to China, albeit in an unexpected context: the labor practices in luxury brands' supply chains outside of China. Recent investigations in Italy (the heart of "Made in Italy" luxury production) revealed that several prestigious brands had products made in clandestine workshops employing low-paid Chinese migrant workers. In 2023–2024, Milan prosecutors uncovered sweatshop-like conditions in Italian factories run by Chinese entrepreneurs, which were subcontracted to by firms producing for brands like Dior, Armani, Valentino, and Loro Piana (Kent, 2025). The scandal was highly publicized: LVMH-owned Loro Piana was placed under court supervision for a year for failing to prevent labor exploitation in its Italian supply chain, and Dior (another LVMH brand) had earlier been sanctioned until it tightened oversight of its workshops. These investigations found that some luxury garments and handbags, commanding exorbitant prices globally, were in fact stitched in backroom factories where Chinese workers toiled for as little as €4 per hour under unsafe conditions (Lepido, Rotondi, & Casiraghi, 2025). The reputational damage from such revelations can be severe. Luxury maisons trade on their heritage and craftsmanship; being tied to modern slavery or worker abuse undermines brand integrity in the eyes of consumers worldwide. For Italian brands especially, the irony of exploiting Chinese labor to maintain margins (while selling to status-conscious Chinese clients) is a potent PR crisis. It fuels skepticism among Chinese consumers and regulators about whether "luxury" companies practice the values of excellence and responsibility they espouse. As globalization exposes these supply chain cracks, luxury firms must strengthen auditing and transparency. The Italian sweatshop saga has become a cautionary example of political risk bleeding across borders: Western legal action on labor rights can implicate global brands and offend consumers in key markets like China, who may react negatively to perceived hypocrisy or mistreatment of Chinese nationals abroad. Going forward, maintaining high labor standards and a clean supply chain is integral to managing political risk and sustaining brand reputation for any luxury company connected to China.

CHAPTER IV: GUCCI

4.1. History of the Brand

The Italian luxury fashion house Gucci established its business in 1921 through the efforts of Guccio Gucci in Florence. The company started as a family leather goods workshop in 1921 but developed into a global luxury brand leader throughout the last hundred years. The company experienced multiple phases of expansion and family conflicts and financial struggles and business rescues and current creative direction under new leadership. The global luxury industry benefits from Gucci's worldwide presence through its more than 500 stores and its annual revenue exceeding €10 billion which amounts to $11 billion according to Martin (2025). The paper uses scholarly research to analyze Gucci's complete history starting from its establishment until present times by examining essential events and lasting impact through multiple academic and business and fashion resources.

Guccio Gucci launched his first boutique in 1921 at Via della Vigna Nuova in Florence where he focused on creating premium leather luggage and accessories (Martin, 2025). The company legend states that Guccio developed his business concept after working as a hotel porter at the Savoy Hotel in London where he noticed the sophisticated luggage of wealthy travelers (Martin, 2025). After working at Franzi luggage company in Italy he started his own business. The first products from Gucci showcased Italian artisanal excellence through a sophisticated global design approach which combined Tuscan leather techniques with the international flair Guccio discovered during his time abroad. The founder brought his family members into the business during the 1930s when his sons Aldo and Vasco and Rodolfo and Ugo joined to help expand the company's product range and customer base. The development of Gucci during its first few decades received influence from outside occurrences. The League of Nations imposed trade sanctions on Fascist Italy in 1935 which resulted in critical leather shortages that threatened the supply chain of the young company (Martin, 2025). The company responded through innovative thinking by using alternative materials when their artisans created woven hemp canapa canvas from Naples which they printed with distinctive brown-and-tan diamante patterns of small diamond shapes. The woven hemp canvas material introduced by Gucci during this period became a defining element of the brand which enabled them to produce high-end handbags and luggage during times of material shortages. The success of Gucci led to the opening of their second store in 1938 at Via dei Condotti which became a prestigious location in Rome. The brand built its excellent reputation during these early years which created a foundation for its future global success after World War II.

The company underwent fast growth and product development after World War II. The company used bamboo handles in their handbags during 1947 because leather shortages and rationing restrictions in the 1940s forced them to find alternative materials (Martin, 2025). The company used Japanese bamboo to create purse handles which became a signature Gucci design element through its distinctive curved bamboo handle. The “Gucci Bamboo” handbag gained instant popularity among high-end consumers who would use it as a status symbol throughout multiple decades. The post-war period saw Aldo Gucci introduce pigskin leather products to the Gucci collection while Rodolfo Gucci established a new Gucci store in Milan during 1951. The brand established its position as a luxury fashion house through its dedication to uniting traditional Italian craftsmanship with innovative design elements. The death of Guccio Gucci in 1953 brought leadership of the company to his children who followed him. The Gucci brand expanded internationally when Gucci established its first international boutique at the Savoy-Plaza Hotel in New York City during 1953. The company's international expansion brought Gucci to global markets while establishing its status as a symbol of jet-set luxury. The Gucci loafer with its metal horsebit detail emerged as a permanent collection item when the company launched it in 1953 to honor its equestrian heritage (Martin, 2025). The Metropolitan Museum of Art in New York acquired a pair of the elegant horsebit loafers which became a defining symbol of Italian fashion (Montalbano, 1993).

The 1960s brought Gucci to the forefront of luxury fashion while it gained popularity among celebrities. The company established its first European and American retail locations through store openings in London and Palm Beach during 1961 followed by Paris in the subsequent years (Martin, 2025). The double-G interlocking logo which Aldo Gucci created for Gucci became the brand's signature motif during this period. The company also received essential media attention through First Lady Jacqueline Kennedy who carried Gucci handbags in public view during the 1960s which led to the creation of the "Jackie" handbag name. The Jackie bag emerged as a top fashion desire of the 1970s, therefore establishing Gucci as a luxury brand that represented aristocratic sophistication and Hollywood luxury. The 1970s brought Gucci global success through its strategic store openings in Tokyo and Hong Kong which made it the first European luxury brand to directly serve Asian markets (Martin, 2025). The company's worldwide expansion into new markets demonstrated its growth into a global luxury brand that represented high-end style.

The public image of Gucci during the 1970s and 1980s concealed internal power struggles and strategic errors that affected the company. The Gucci family maintained control of the business while their sons and grandchildren fought for leadership positions which led to intense family disagreements about business strategy. The late 1970s saw Gucci's brand value decline because the company had granted numerous licensing agreements which resulted in a massive market saturation of "GG" branded products from luxury handbags to cheap keychains (Haworth, 2016). The family members developed such strong disagreements about the business path that they started fighting openly. The Gucci family faced a legal dispute in 1980 when Paolo Gucci launched his own company under the Gucci name against his father Aldo and his cousins. The public witnessed a physical fight at a Gucci board meeting in 1982 which led Paolo to file assault charges against his relatives (Martin, 2025). The family patriarch Aldo received a one-year prison sentence for tax evasion in the United States during 1986 which demonstrated the complete deterioration of family relations (Martin, 2025). The company introduced a minority share listing on the public market during 1982-83 to obtain capital and achieve management stability while the Gucci family maintained their ownership control.

Maurizio Gucci received control of Gucci through his position as the grandson of the founder during the 1980s. The death of Rodolfo Gucci in 1983 led Maurizio to receive his father's 50% stake which granted him control over the company. Maurizio Gucci sought to revive Gucci's luxury image because he believed the brand suffered from excessive licensing and his uncle Aldo focused on quantity over quality (Martin, 2025). Maurizio started a last battle to remove his family members from the business which led to a complete power struggle between them. Maurizio brought in the Bahrain-based private equity firm Investcorp to acquire the remaining family shares during the 1987-88 period when internal conflicts depleted the company's financial resources. The partnership between Maurizio and Investcorp acquired majority control of Gucci in 1989 which marked the end of Gucci family rule that spanned multiple generations. The company faced severe financial difficulties during the early 1990s because Gucci's business operations were in complete disarray (Montalbano, 1993). The brand lost its former prestige and became known as a relic of past times which needed immediate revitalization.

The 1990s brought a revolutionary change to Gucci because the company recovered from near bankruptcy to achieve its position as one of the most successful fashion brand recoveries in history. The company achieved its first major success by recruiting outside professionals who brought in new design expertise and management skills. Dawn Mello joined Gucci as creative director in 1989 after her successful presidency at Bergdorf Goodman in New York to revitalize the company's product lines (Martin, 2025). Mello brought Tom Ford to Gucci as the new designer for women's clothing after his recruitment to the company. The Creative Director position at Gucci went to Tom Ford in 1994 when he brought his modern and sensual design approach to transform the brand. The new direction of Gucci under Ford brought a fresh modern style that replaced the outdated and overused designs of the late 1980s. During the mid-1990s Ford led a complete transformation of Gucci's product lines and store designs and advertising campaigns which resulted in a glamorous new image that brought Gucci back to its position as a leading fashion brand (Martin, 2025). The 1995 MTV Awards became a defining moment for Gucci when Madonna wore a white cutout Gucci gown with horsebit ornamentation which referenced the brand's equestrian heritage (Maunov, 2021). The company eliminated its numerous product licenses to concentrate on high-quality products which restored the luxury image of Gucci (Goldstein, 2001). The business outcomes achieved by Ford during his leadership period were truly remarkable. The second half of the 1990s brought Gucci tremendous success through its rising sales and profits which made LVMH pass on a $400 million acquisition opportunity in 1994 but the company became worth more than $8 billion by 1999 (Goldstein, 2001). The fast-paced revenue growth exceeding 50% annually during this period established Gucci as the standard for luxury brand revivals (Williams, 2022). The business world adopted "doing a Gucci" as a term to describe the process of transforming a declining heritage brand (Goldstein, 2001). Gucci Group NV achieved its complete transformation from family business to public company through its 1995 stock exchange listings on New York and Amsterdam markets (Martin, 2025). The Gucci saga reached its most tragic point in 1995 when Maurizio Gucci became the last family member to lead the company before his assassination on March 27th in Milan by a professional hitman. The murder investigation showed that Patrizia Reggiani orchestrated the assassination of her ex-husband Maurizio Gucci because she sought revenge against him for selling their family business and their bitter divorce (Haworth, 2016). The 1998 trial of Reggiani became a media sensation in Italy because she received the "Black Widow" moniker from the press after being convicted of orchestrating the murder (Haworth, 2016). The company management at that time worked to separate the brand from the family drama that unfolded during this period. The successful business growth under Ford and De Sole's leadership at Gucci maintained its success even though the company faced negative media attention. The late 1990s brought Gucci back to its position as a leading luxury brand which people sought after throughout the world.

The late 1990s brought success to Gucci which led to its transformation into a luxury conglomerate that made acquisitions. The management team at Gucci faced a public takeover fight with LVMH during 1999 because LVMH operated as the world's biggest luxury group. The CEO of LVMH Bernard Arnault acquired 34% of Gucci's shares during the first months of 1999 which many observers saw as a hostile takeover move (Goldstein, 2001). Domenico De Sole and Tom Ford searched for a white knight investor to counter LVMH's takeover attempt and they found support from French retail leader François Pinault who controlled Pinault-Printemps-Redoute (PPR). The PPR group purchased 42% of Gucci shares through new stock issues which reduced LVMH's ownership and prevented Arnault from taking control of the company (Martin, 2025). The corporate struggle between LVMH and PPR led to public disputes through legal battles that lasted until PPR gained control of Gucci. The PPR group acquired more than 99% of Gucci ownership by 2004 after LVMH surrendered its stake in the company. The acquisition of Gucci by Pinault in 2004 established the brand as a vital part of his luxury business which he renamed the Gucci Group. The PPR Group acquired Yves Saint Laurent and Alexander McQueen and Balenciaga and Bottega Veneta during the early 2000s to establish Gucci as the central brand within its diverse luxury fashion business (Goldstein, 2001). The company PPR underwent a corporate name change to Kering in 2013 after it acquired all public shares in 2003 (Martin, 2025). The luxury brand Kering operates as the parent company of Gucci through 2025 while directing its worldwide business operations.

The ownership structure of Gucci underwent changes while the company experienced different creative leadership during this period. The departure of Tom Ford from Gucci in 2004 occurred because he disagreed with new ownership about artistic freedom and business strategy after a decade of successful leadership. The simultaneous departure of Tom Ford and Domenico De Sole brought an end to the previous leadership era at Gucci. The design leadership of Gucci passed to Frida Giannini who became the Creative Director in 2006 after taking charge of accessories. This appointment brought a new direction to Gucci through her focus on heritage elements and romantic designs (Martin, 2025). Giannini restored vintage Gucci designs including the Flora print and Jackie handbag while uniting modern edginess with traditional Italian heritage elements. The brand maintained its commercial success under Giannini's leadership from 2006 to 2014 although industry experts started to notice a decline in its innovative edge during the early 2010s (Williams, 2022). The global financial crisis of 2008 did not affect Gucci negatively because of its international presence and enduring brand value which kept it among the world's leading luxury fashion companies in 2010.

Gucci started a new chapter in January 2015 when Giannini left his position to Alessandro Michele as Creative Director and Marco Bizzarri took over as CEO. The company underwent a transformative change which brought about a contemporary revival for the brand. The fashion world received a shock when Alessandro Michele took over as Creative Director at Gucci because he presented a maximalist design approach that completely abandoned the sleek style of the Ford/Giannini period. The designer Alessandro Michele brought Gucci into a new era by creating androgynous designs with vintage elements and eclectic patterns which attracted young consumers from the millennial and Gen-Z demographics (Williams, 2022). The first collections of Michele in 2015–2016 brought forth a fresh wave of interest in the brand through his use of elaborate ready-to-wear designs, geek-inspired fashion and creative thematic runway presentations. The brand experienced rapid financial growth after 2015 because its annual revenues increased by 200% and operating profits increased by 300% which established Gucci as one of the world's fastest-growing luxury brands (Williams, 2022). The sales of Gucci reached €10 billion in 2019 which demonstrated both financial success and the cultural impact that Michele had established for the brand. The fashion world recognized Michele's successful approach to digital media and streetwear elements and artist

partnerships which established Gucci as a leading fashion brand of the 21st-century design excellence.
Gucci continues to maintain its successful position during the early 2020s while facing emerging market obstacles. The COVID-19 pandemic resulted in a brief but severe decline of luxury spending during 2020 which caused Gucci to experience a 20% decrease in revenue (Williams, 2022). The brand experienced a strong recovery when markets regained stability although its growth rates became lower than those of its competitors. The late 2022 period marked a time when Kering and industry experts started to believe Gucci needed fresh creative direction because Michele's maximalist style had lost its initial appeal (Williams, 2022). The fashion world learned in November 2022 that Creative Director Alessandro Michele would leave his position after seven successful years at Gucci. The leadership team at Gucci recognized Michele's transformative work while stating that the brand needed fresh creative direction to maintain its current success (Williams, 2022). The Italian designer Sabato De Sarno joined Gucci in 2023 as the new Creative Director after working at Valentino (Kering, 2023). The Fall/Winter 2023 collection from De Sarno will introduce Gucci's next design direction to the world.
Gucci continues to lead the luxury fashion industry through more than a century by uniting its historical heritage with innovative approaches. The Kering group owns Gucci as one of its premium brands which continues to create luxury products for contemporary consumers while preserving the traditional craftsmanship of its founder.

4.2. Gucci as a Global Company

It was Guccio Gucci, a young Florentine fascinated by luxury, who opened a shop in his hometown in 1920, specializing in artisanal leather craftsmanship. The exquisite craftsmanship and quality of the materials used ensured the inevitable success of that small company, whose hallmarks were its bags, tricolor belts, and now legendary moccasins.
Shortly thereafter, and with the help of three of his sons – Aldo, Vasco, and Rodolfo – Guccio began expanding the company, opening branches in Milan and Rome, in addition to the existing store in Florence, on Via della Vigna Nuova. After the end of World War II, with the global economic recovery, the brand began its international expansion, opening a branch in New York. At that time, in the 1950s and 1960s, the jet set and

Hollywood stars loved the Gucci "G" symbol, which helped transform the brand into a symbol of global luxury. The expansion into markets such as China, Japan, and South Korea has been particularly decisive in consolidating Gucci's global status, as these regions have become central in determining the consumption trends of luxury goods (Som & Blanckaert, 2015, p. 58).

As a global company, Gucci has also mastered the art of balancing its Italian heritage with a cosmopolitan vision. While its designs often incorporate elements that highlight the brand's roots in Florentine craftsmanship, the creative direction consistently integrates global cultural influences, appealing to diverse audiences around the world. The appointment of designers such as Tom Ford in the 1990s and later Alessandro Michele marked turning points in the brand's trajectory, demonstrating the importance of creative leadership in shaping Gucci's international image. Under Michele, in particular, Gucci reinvented itself with a more eclectic and inclusive style, capturing the attention of younger generations and positioning itself as a forward-thinking company in the luxury landscape. This reinvention not only boosted sales but also reinforced the perception of Gucci as a cultural force that transcends mere fashion.

From a business perspective, Gucci's global operations are characterized by diversification and innovation. The brand does not limit itself to apparel and accessories but has extended its portfolio to include fragrances, cosmetics, jewelry, and home décor, thereby consolidating its image as a lifestyle brand. This diversification ensures resilience against market fluctuations and enhances Gucci's ability to respond to evolving consumer preferences. Furthermore, its early embrace of e-commerce and digital communication platforms has been fundamental in maintaining a strong global presence, especially in times when physical retail has faced challenges. Gucci's online platforms, combined with a strong social media strategy, enable the company to reach millions of consumers across continents, strengthening its bond with a global audience that increasingly values both accessibility and exclusivity (Chadha & Husband, 2010, p. 14).

Sustainability and corporate responsibility have also become integral to Gucci's global identity. Recognizing the growing importance of environmental and social concerns in consumer decision-making, the company has implemented strategies aimed at reducing its ecological footprint and promoting ethical practices throughout its supply chain. Initiatives such as the adoption of sustainable materials, the reduction of carbon emissions, and support for gender equality and inclusivity demonstrate Gucci's awareness of its global role and responsibility. This commitment has not only enhanced its reputation but has also positioned the company as a leader in redefining what it means to be a modern luxury brand (Lojacono & Pan, 2021, pp. 18–19).

4.2.1. Worldwide Marketing and Distribution Strategies

Gucci's worldwide marketing and distribution strategies illustrate how a luxury brand can achieve global resonance while maintaining a coherent and recognizable identity. The company has developed a unique approach that combines traditional luxury values with contemporary communication techniques, positioning itself as both an exclusive and widely desired brand. Marketing at Gucci has always been deeply intertwined with its storytelling capacity, where every campaign is designed to evoke an emotional response, to narrate a story, and to create an aura of desirability around the brand. In today's interconnected world, companies are constantly looking for ways to expand beyond their borders. However, entering a foreign market requires careful planning and strategic decisions. Growing your business in international markets is an important path to lasting expansion. Digital services (from customized websites to global marketing campaigns) require clear strategies to effectively reach new audiences. The fundamentals haven't changed much since the days of the old trade routes: you still need to understand cultural differences, comply with local laws, and offer something of value to your target market.
What makes international expansion work? Success is achieved by finding the right balance between your company's strengths and adapting to the needs of the local market. This requires in-depth research of target markets, competitive analysis, and the intelligent use of resources (Kapferer & Bastien, 2009, p. 48). Direct exporting, for example, occurs when a company sells its products directly to international customers, without intermediaries such as distributors. This method allows for complete oversight of sales, marketing, and distribution activities in foreign markets. With the growth of online commerce and improved shipping networks, more and more companies can now sell directly to customers around the world, as is the case with Gucci. This approach is ideal for companies looking to manage their brand image and build strong relationships with customers abroad.

The worldwide distribution strategies adopted by Gucci reflect a delicate balance between exclusivity and accessibility. The company maintains a carefully selected network of flagship stores in major fashion capitals such as Milan, Paris, London, New York, Tokyo, and Shanghai, which serve as architectural statements and brand showcases. These stores are designed not only as points of sale but as immersive experiences that embody Gucci's aesthetic universe. Beyond the flagship network, Gucci has expanded into secondary markets with smaller boutiques that maintain the same high standards of customer service and product presentation, ensuring that the essence of the brand is consistently delivered regardless of location (Kapferer & Bastien, 2009, p. 48).

In addition to its physical presence, Gucci has been a pioneer among luxury brands in embracing e-commerce as a crucial element of global distribution. Unlike earlier industry skepticism that online retail could diminish the exclusivity of luxury goods, Gucci recognized the potential of digital commerce to expand its reach without compromising prestige. The company has built a robust online platform that integrates storytelling with seamless purchasing experiences, offering customers worldwide access to the latest collections while preserving a sense of personalization and exclusivity. This strategy has proven essential in periods when physical retail has been disrupted, confirming the importance of digital channels for global luxury distribution (Lojacono & Pan, 2021, p. 46).

4.2.2. Economic Performance and Relevance in Key Markets

Gucci's economic performance and relevance in key markets offer a clear demonstration of how a luxury brand can achieve long-term growth by carefully balancing financial strength, consumer appeal, and strategic expansion (Kapferer & Bastien, 2009, p.73). The company has consistently positioned itself among the most profitable names in the luxury sector, with revenues that rank it alongside other industry leaders such as Louis Vuitton, Hermès, and Chanel. The capacity to generate strong sales and maintain high operating margins derives from a combination of exclusivity, creativity, and a well-orchestrated global strategy. Gucci has become not only a symbol of luxury fashion but also a significant driver of growth for its parent company Kering, often accounting for the majority of group revenues and profits. This centrality underscores the economic

importance of Gucci within the broader corporate framework and highlights its strategic relevance in the competitive landscape of global luxury (Kapferer & Bastien, 2009, p.75). The company's economic performance has been shaped by its ability to identify and capitalize on the most lucrative markets for luxury consumption. Europe has historically represented the heart of Gucci's operations, both as a production hub and as a primary market where the brand's heritage resonates deeply. Cities such as Milan, Paris, and London remain central to its business, serving not only as retail strongholds but also as cultural platforms that enhance the aura of Italian luxury. Economic indicators are important in the financial market because they reflect the symbiotic relationship between economics and finance. Economic indicators serve as signals that investors and traders use to assess the economic outlook and make informed decisions.
When new economic data is released, such as the quarterly GDP report or unemployment figures, financial markets can react significantly. For example, a growing GDP can boost investor confidence and lead to stronger stock markets. On the other hand, a high unemployment rate can raise concerns about the health of the economy and cause market volatility.

It is important for investors and traders to correctly interpret economic indicators to make informed decisions. This requires access to reliable sources and resources that provide this data in a clear and understandable manner. Furthermore, it is necessary to understand the metrics and units used in economic indicators to assess their direction and level.
Japan and South Korea stand out as additional key markets that have contributed significantly to Gucci's economic performance. Japan, with its long tradition of valuing craftsmanship and quality, has been receptive to Gucci's heritage and its meticulous attention to detail. South Korea, on the other hand, has become a particularly dynamic market thanks to its young population, growing affluence, and global influence in fashion and culture through phenomena such as K-pop. Gucci's ability to integrate itself into these cultural trends and to position its products as symbols of modernity and distinction has allowed the brand to thrive in these environments (Lojacono & Pan, 2021, p. 78).

The Middle East represents another region of growing importance, particularly in markets such as the United Arab Emirates and Saudi Arabia. Here, Gucci benefits from a clientele that values exclusivity and is highly receptive to luxury brands that combine tradition with innovation. Flagship stores in Dubai and Riyadh not only drive sales but also serve as cultural hubs where Gucci's vision is communicated to a cosmopolitan audience. This presence contributes to consolidating Gucci's global reputation while simultaneously generating strong financial results.

4.3. Strategic Focus: The Chinese Market

The strategic focus on the Chinese market represents one of the most decisive elements in Gucci's global expansion and long-term growth. China has emerged over the last two decades as the single most important region for luxury consumption, with a rapidly expanding middle and upper class that has transformed its economic and cultural landscape. Gucci, like other leading luxury brands, has understood that the Chinese market is not merely an additional area of business but rather a cornerstone of its global strategy. The company's ability to interpret the specific characteristics of this market and to adapt its operations to local preferences has allowed it to establish a privileged position within a highly competitive environment.

The importance of the Chinese market lies in its scale and dynamism. Demographic shifts have created a consumer base that is young, affluent, and eager to express identity through fashion and luxury goods. Millennials and Generation Z account for a particularly large share of luxury spending in China, and their consumption habits differ substantially from those of older generations in Europe or North America. They are highly digital, deeply engaged with social media platforms, and extremely receptive to innovative campaigns that blend fashion with art, music, and popular culture. Gucci has strategically adapted its marketing and distribution efforts to meet these expectations, integrating itself into China's digital ecosystem with a presence on platforms such as WeChat, Weibo, and Xiaohongshu, while also using Alibaba's Tmall Luxury Pavilion to reach consumers through official e-commerce channels. This digital integration ensures that Gucci maintains constant visibility and accessibility, responding to the habits of a market where online luxury purchasing has become increasingly normalized (Kapferer & Bastien, 2009 p. 84).

The corporate culture differs enormously from the distinct states, but also usually presents similarities in the territories of the mayors. We divide the world into different cultures; a grandes rasgos, nos estructuramos en cinco zonas: la culture asiática; the African; the Arab; the English-speaking one, which included EE. UU., Australia, South Africa and territories of northern and central Europe; and, finally, the Mediterranean, united with Latin America.

China forms part of Asian culture and is much easier to expand to territories of the same culture as Japan. In Japan, the commercial system is based on a game for the benefit of the group and not on a mutual benefit as in other Western territories; silence, patience and concentration are the following characteristics of all negotiations. All these features are generally implemented by Chinese companies in their territory, so that, during the internationalization in Japan, there is not as much pressure for forms of trade as any Western company tends to do. The patience to negotiate is also shared with African countries, which are very slow in making decisions, but the immediate finalization of the country's legislation also helps to speed up this process. Asymism, in Asian territory, the social component is vital. Westerners can trade in factories, large spaces and good infrastructure; While Asians, and above all Chinese people, prefer to trade in public spaces, in restaurants, in areas that Westerners and Anglos consider excellent. The reason for this is essentially rooted in the fact that regular negotiations in China are more peaceful, whereas in Europe the style of negotiation is much more conflictive and can even become aggressive.

A key element of Gucci's strategy in China has been its ability to localize communication while preserving global identity. The company adapts campaigns to reflect Chinese cultural sensibilities, often launching collections or special products linked to important moments such as Lunar New Year. Limited editions inspired by traditional motifs and symbols create an immediate resonance with Chinese consumers, while collaborations with local artists and celebrities strengthen cultural connections. These initiatives not only drive sales but also reinforce the perception of Gucci as a brand capable of speaking directly to the Chinese audience without compromising its italian heritage.

Gucci's Chinese market has played a crucial role in the company's economic stability, especially during times of financial uncertainty. Furthermore, customers purchasing from abroad have also ensured the company's prosperity, a characteristic that is difficult to

maintain over time. Finally, the Chinese market also leverages sustainability, a highly sensitive issue among young people, highlighting themes such as carbon neutrality, eco-friendly materials, and inclusive campaigns (Som & Blanckaert, 2015, p. 149).
Appearances of Gucci products in popular films, music videos, and television programs reinforce brand visibility and ensure that Gucci remains embedded in everyday cultural life. This strategy has proven especially effective in a country where the influence of entertainment and digital personalities often surpasses traditional advertising.

4.3.1. PESTEL Analysis: The Context of the Chinese Luxury Market

PESTEL analysis is a tool that provides a list of potentially important issues that influence a company's strategy. To do so, it uses six macroenvironmental factors that make-up its acronym. These factors are: Political (P), Economic (E), Social (S), Technological (T), and Environmental (E). China has significant economic opportunities to succeed in its internationalization strategy along the Silk Road. However, threats, especially political ones, can jeopardize this strategy. The struggle for international trade between countries is a zero-sum game: the economic power gained by one country is "stolen" from the other. This has led to a trade war between the United States and China. China is growing exorbitantly and is "stealing" market share from the United States, a market the United States is unwilling to give up. However, China has no competitor in the United States; Russia and the United Kingdom are also struggling to regain their colonial hegemony. This inter-territorial competition could lead to two completely opposite scenarios: these tensions could destabilize relations between different countries around the world, thus jeopardizing global trade peace and forcing other countries with less influence in international trade to take sides for or against one or the other. After all, all countries depend on others for survival; an autarkic policy is not sufficient for a nation's survival; it requires adequately supplied exports and imports. However, it could also happen that China adopts a change of strategy and, rather than opting for near-total control of world trade, decides to establish greater trade relations with developing or underdeveloped countries, expanding into an unusually busy market.
The context of the Chinese luxury market can be better understood through a PESTEL analysis, which allows an exploration of the political, economic, social, technological, environmental, and legal factors that influence Gucci’s strategies in this region. Each of

these dimensions plays a decisive role in shaping the opportunities and challenges that luxury companies face when operating in China, and Gucci has demonstrated a remarkable capacity to navigate these forces with flexibility and foresight.

From a political perspective, China represents both an opportunity and a challenge for global luxury companies. The country's political stability, combined with strong central government control, has created a predictable environment for long-term investments. At the same time, the state exerts significant influence over foreign enterprises through regulatory frameworks, restrictions, and strategic guidance aimed at favoring domestic growth. Gucci's operations must therefore align with government policies that encourage consumption while also protecting national interests. Campaigns such as the promotion of "common prosperity" have highlighted the importance of aligning luxury consumption with broader social goals, avoiding perceptions of ostentation that could be politically sensitive. Gucci's ability to present its products as not only exclusive but also aligned with cultural values has been critical in maintaining a positive relationship with the political framework of the country (Lojacono & Pan, 2021, p. 86).

Economically, China has become the engine of global luxury growth. Rising disposable incomes, the expansion of the middle class, and the increasing appetite for luxury goods have positioned China as an indispensable market for brands like Gucci. Even during periods of global economic uncertainty (Mitterfellner, 2023, p. 48), Chinese consumers have demonstrated resilience, often leading the recovery of luxury sales worldwide. However, the market is not without risks. Economic slowdowns, shifts in consumer confidence, and currency fluctuations can directly impact sales performance. Gucci has responded by diversifying its product offerings and strengthening domestic retail channels, ensuring that it can capture demand within China without relying solely on international tourism, which had traditionally played a major role in Chinese luxury consumption. The brand's pricing strategies also reflect sensitivity to local conditions, balancing exclusivity with the need to remain competitive against both foreign and increasingly strong domestic luxury brands (Kapferer & Bastien, 2009, p. 98).

The technological context of China offers both unique opportunities and distinct challenges. The country has one of the most advanced digital ecosystems in the world, with consumers highly accustomed to e-commerce, mobile payments, and social media engagement.

4.3.2. Gucci's Entry and Development in China

Gucci’s entry and development in China trace a trajectory that mirrors both the transformation of the Chinese economy and the evolution of the global luxury industry. The brand approached the Chinese market at a time when international luxury houses were beginning to recognize the immense potential of the region, yet Gucci distinguished itself by combining early initiatives with a sustained strategy that evolved in line with the country’s rapid social and economic changes. The timeline of Gucci’s expansion into China reveals a gradual but determined consolidation of presence, beginning in the late twentieth century and intensifying in the early 2000s, when China’s accession to the World Trade Organization opened the door for broader foreign investment (Lojacono & Pan, 2021, p. 105).

The first Gucci boutiques in China appeared in the mid-1990s, at a time when luxury consumption was still relatively limited and restricted to a small elite. These early operations were focused on the main metropolitan hubs such as Beijing and Shanghai, which served as gateways for international brands due to their growing cosmopolitan character. In this initial phase, Gucci emphasized the introduction of its most iconic products, such as leather goods and handbags, presenting them as symbols of status and aspiration in a market still discovering the meaning of Western luxury. The early years were marked by a cautious approach, with operations often carried out through local partnerships that allowed Gucci to navigate a regulatory framework not yet fully open to foreign companies (Lojacono & Pan, 2021, pp. 107-108).

The 2000s represented a decisive turning point in Gucci’s development in China. The economic reforms of the period, coupled with the rapid growth of disposable incomes, created an unprecedented expansion of luxury consumption. Gucci responded by intensifying its investments, opening a larger number of boutiques in key urban centers and extending its presence beyond the capital cities into emerging commercial hubs. By the end of the first decade of the twenty-first century, Gucci had established itself as one of the leading luxury brands in China, with a retail network that reflected both ambition and strategic foresight. The weight of its operations increased significantly during this period, and China began to account for a growing share of Gucci's global revenues, highlighting its rising importance within the company's international portfolio.

The 2010s consolidated this trajectory, with Gucci adapting its development to the new patterns of consumption emerging in China. The company recognized that younger generations were becoming the main drivers of luxury spending and adjusted its strategy accordingly. artnerships with platforms such as Alibaba's Tmall Luxury Pavilion and the launch of official accounts on WeChat and Weibo allowed Gucci to reach a vast and increasingly sophisticated consumer base (Chadha & Husband, 2010, p. 69).

4.3.3. Operational and Localization Strategies ("What Gucci Does in China")

Gucci's operational and localization strategies in China reflect a careful balance between global coherence and local adaptation, demonstrating how a luxury brand can preserve its international identity while fully embracing the unique cultural, digital, and social dynamics of the Chinese market. The company has recognized that success in China depends not only on the quality of its products but also on its ability to integrate into the daily lives, values, and aspirations of Chinese consumers. For this reason, Gucci has developed a set of strategies that address digital adaptation, collaborations with key opinion leaders, market-specific campaigns, and an elevated customer experience, all of which have contributed to consolidating its position as one of the most influential luxury brands in the country (Som & Blanckaert, 2015, p. 205).

A central element of Gucci's strategy has been the integration into China's distinctive digital ecosystem. Unlike Western markets dominated by platforms such as Instagram, Facebook, or Google, the Chinese digital landscape is shaped by services like WeChat, Weibo, Xiaohongshu, and Tmall Luxury Pavilion. Gucci has invested heavily in these platforms, creating official accounts that allow direct communication with millions of consumers. On WeChat, Gucci offers mini-programs that blend storytelling, interactive content, and e-commerce, creating a seamless path from inspiration to purchase. This approach reflects an understanding of the role WeChat plays as a multifunctional application used for communication, payments, and lifestyle integration. Similarly, Gucci's presence on Tmall Luxury Pavilion ensures visibility on one of the most prestigious online marketplaces for high-end brands, combining the exclusivity of luxury retail with the convenience of Chinese e-commerce culture. By fully embracing these platforms, Gucci has not only increased its accessibility but also reinforced its image as a brand that respects and understands the digital habits of its audience (Mitterfellner, 2023, p. 48).

Equally important has been the collaboration with KOLs, or key opinion leaders, who exert immense influence over consumer preferences in China. Gucci has cultivated relationships with celebrities, influencers, and cultural icons whose endorsement of the brand resonates deeply with audiences. These collaborations extend beyond simple product placement and often take the form of creative partnerships, where KOLs become part of storytelling campaigns that align Gucci with contemporary cultural trends. Musicians, actors, and digital creators associated with Gucci embody values such as individuality, innovation, and creativity, which appeal particularly to younger generations. By aligning itself with figures who shape Chinese popular culture, Gucci ensures that its message reaches audiences in an authentic and aspirational manner, reinforcing the perception of the brand as culturally relevant and forward-looking (Kapferer & Bastien, 2009, p. 128).

Specific campaigns designed for the Chinese market further illustrate Gucci's localized strategy (Kapferer & Bastien, 2009, p. 132).

4.3.4. The Competitive Landscape in China

The Chinese e-commerce market, the world's largest, presents a dynamic and complex competitive environment. The landscape is dominated by a few large players such as Alibaba, JD.com, and Pinduoduo, as well as emerging competitors and niche segments that are continually reshaping market dynamics. For companies intending to enter or expand in this market, a thorough analysis of the competitive landscape is essential. The analysis will cover key areas such as understanding market structure, evaluating competitor strategies, assessing market needs, and leveraging technology to gain a competitive advantage (Som & Blanckaert, 2015, p. 58).

In addition to the giants, new companies are constantly entering the market, often carving out niche segments. For example, social e-commerce platforms like Xiaohongshu (Red) focus on lifestyle and beauty products and leverage user reviews and influencer partnerships. Understanding these emerging competitors helps identify potential threats and opportunities.

One of the key competitive drivers in Chinese e-commerce is price. Study how competitors set their prices for different segments. For example, Pinduoduo's lower-price strategy targets cost-sensitive consumers in smaller cities.

Louis Vuitton stands as one of the most significant competitors, benefiting from decades of presence in China and from a reputation that combines heritage with modernity. The brand has consistently invested in high-profile flagship stores located in prime shopping districts such as Beijing’s China World Mall and Shanghai’s Plaza 66, creating spaces that symbolize exclusivity and prestige. Louis Vuitton has also excelled in the creation of large-scale cultural events and exhibitions in China, using these opportunities to reinforce its image as more than a fashion brand but as a cultural institution. Its marketing campaigns often focus on the craftsmanship and timelessness of its products, which resonate strongly with Chinese consumers who value both tradition and modern status. Gucci must therefore compete against a brand that commands unparalleled recognition and loyalty, making differentiation through creativity and bold design essential (Lojacono & Pan, 2021, p. 133).

Dior has positioned itself in China as a brand of refinement and elegance, emphasizing its French heritage and strong associations with haute couture. The company has cultivated a distinctive presence through marketing campaigns that highlight femininity, sophistication, and exclusivity, appealing particularly to women in metropolitan areas who view luxury consumption as a means of self-expression. Dior’s use of Chinese celebrities and actresses as brand ambassadors has further strengthened its connection with the local market, providing aspirational figures that embody the values of success and modernity. In addition, Dior’s fragrance and cosmetics divisions have significantly contributed to its performance in China, enabling the brand to build a wider consumer base while simultaneously reinforcing its high-end image. Gucci’s challenge in this context is to maintain a unique identity that competes not only in fashion but also across lifestyle categories where Dior has gained a strong foothold.

Hermès represents another formidable competitor, though it has adopted a different strategy focused on exclusivity and controlled growth. Unlike Gucci, which has expanded aggressively in terms of both physical presence and digital engagement, Hermès has opted for a more selective approach, limiting the number of boutiques and emphasizing its heritage of artisanal craftsmanship. This strategy appeals to the wealthiest segments of Chinese society, who value the scarcity and timelessness of Hermès products, particularly its iconic Birkin and Kelly bags. The aura of rarity surrounding Hermès provides it with a competitive advantage in the ultra-luxury segment, creating a distinct positioning that contrasts with Gucci's more eclectic and youthful image (Kapferer & Bastien, 2009, p. 149).

Chanel, though not part of the same corporate conglomerates as Gucci's main rivals, plays a critical role in shaping the competitive environment. The brand combines timeless sophistication with modern innovation, supported by a strong presence in fashion, beauty, and fragrance. Chanel has cultivated a powerful emotional connection with Chinese consumers through campaigns that emphasize individuality and femininity, often using exclusive shows in Shanghai or Beijing to reinforce its global status (Kapferer & Bastien, 2009, p. 151).

4.4. SWOT Analysis: Gucci's Strategic Position

The SWOT analysis of the Gucci brand highlights its strengths, such as positioning, reputation, and innovation. It also identifies opportunities in an evolving market characterized by new styles. After the critical point, the brand's image inconsistency and loss of focus are highlighted. Finally, the strong competition between brands such as LVMH and Prada and the favorable economic conditions for the luxury market are evident..

The strengths of Gucci remain deeply embedded in its historical legacy, its creative authority, and the support it receives from its parent company Kering. The Florentine origins of the brand allow Gucci to draw upon a century of craftsmanship and Italian excellence, elements that continue to inspire consumer trust and admiration worldwide. The creative leadership that has characterized different phases of the company's history demonstrates its ability to reinvent itself while remaining relevant, appealing to both established clientele and younger generations seeking individuality and expression. The strategic and financial backing of Kering ensures stability, enabling Gucci to invest in global expansion, technological innovation, and sustainability initiatives. Added to these are the brand's strong identity, storytelling capacity, and omnichannel strategies that reinforce its resonance in both traditional retail and digital environments, confirming its status as a leader in the luxury sector.

Alongside its strengths, Gucci faces internal weaknesses that can become limiting factors if not carefully managed. The company's strong reliance on the Asian market, particularly China, makes it vulnerable to fluctuations in regional demand, regulatory shifts, or political challenges that could undermine revenues. The rapid expansion and wide visibility of Gucci also bring the risk of brand fatigue, as overexposure may erode the aura of exclusivity that is central to luxury positioning. Ensuring a consistent customer experience across hundreds of boutiques and digital platforms represents another complex challenge, as discrepancies in service can dilute consumer trust. In addition, Gucci's financial performance remains heavily tied to a few product categories such as leather goods and handbags, which, while highly profitable, expose the brand to concentration risk should consumer preferences shift toward alternative categories or competing labels.

The opportunities available to Gucci are significant, especially when considered within the broader evolution of global consumer trends. Technological advancements offer new pathways for the brand to connect with its audience, from augmented reality showrooms to virtual fashion experiences and artificial intelligence tools that enable personalization at scale.

4.4.1. Strengths: e.g., Brand heritage, creative power, Kering's support.

The greatest strengths of Gucci are inseparably linked to its rich heritage, its creative identity, and the strategic support it receives from the Kering group. Founded in Florence in 1921, Gucci carries with it more than a century of craftsmanship, tradition, and cultural authority that distinguishes it from newer entrants in the luxury sector. This heritage translates into a deep reservoir of trust and symbolic capital that allows the brand to appeal across generations, combining nostalgia for Italian artistry with the allure of contemporary innovation. Equally significant is the creative power of Gucci, which has repeatedly reinvented itself through bold, often unconventional designs that set global trends rather than merely responding to them. Creative directors such as Tom Ford, Frida Giannini, and more recently Alessandro Michele have marked turning points in the company's trajectory, each demonstrating the ability to rejuvenate Gucci's aesthetic while keeping it relevant to the social and cultural spirit of their time. Beyond creativity and heritage, the structural advantage of belonging to Kering cannot be overstated. The French luxury conglomerate provides financial stability, access to managerial expertise, and a network of synergies with other high-end brands that strengthen Gucci's position in global markets. Added to these factors are Gucci's mastery of digital communication, its success in cultivating a loyal clientele across multiple generations, and its strong brand equity, all of which establish it as one of the undisputed leaders of international luxury (Som & Blanckaert, 2015, p. 251).

4.4.2. Weaknesses: e.g., Dependence on the Asian market, risk of brand fatigue.

Despite its impressive global success, Gucci is not immune to internal weaknesses that could hinder its long-term performance. One of the most evident vulnerabilities is the brand's reliance on the Asian market, and particularly China, which accounts for a disproportionately large share of its total revenues. This concentration makes Gucci highly exposed to regional shifts in consumer sentiment, regulatory measures, or economic slowdowns that could suddenly impact sales. Another weakness arises from the risk of brand fatigue. Gucci's rapid growth during the last decade, fueled by bold campaigns and highly visible collections, has amplified its presence but also created the danger of overexposure. In luxury, ubiquity can sometimes undermine exclusivity, and Gucci must carefully balance the tension between being accessible to younger, digitally connected consumers and preserving the aura of rarity that sustains its premium positioning. Operational challenges also emerge from the complexity of managing a vast global retail and digital network, where inconsistencies in service delivery or brand experience may dilute customer loyalty. Furthermore, Gucci's revenues remain heavily tied to a limited number of product categories, especially handbags and leather goods, which, while immensely profitable, expose the company to risks of consumer preference shifts or market saturation. These weaknesses, if not strategically addressed, could limit Gucci's ability to sustain its competitive advantage in the long run.

4.4.3. Opportunities: e.g., new technologies, expansion into new categories.

Gucci's opportunities lie in its ability to leverage global changes in consumer behavior, technology, and market development to reinforce its leadership in luxury. The brand has considerable scope to expand through new technologies, which are reshaping the ways in which luxury consumers engage with fashion. Developments in artificial intelligence, augmented reality, and virtual retail create possibilities for enhanced personalization, digital experiences, and innovative storytelling, all of which can resonate deeply with Gucci's younger clientele. Expansion into new categories represents another promising pathway for growth. While Gucci already operates in fashion, accessories, and beauty, further strengthening its presence in areas such as home décor, lifestyle products, and fine jewelry could consolidate its identity as a complete luxury ecosystem rather than a fashion brand alone. Sustainability also offers a powerful opportunity. As global consumers, and particularly younger Chinese and Western audiences, demand authenticity and responsibility, Gucci can capitalize on its pioneering efforts in carbon neutrality, eco-friendly materials, and inclusive campaigns to cement its image as a leader in sustainable luxury. Moreover, there are significant geographical opportunities in emerging markets outside Asia, such as Africa, Latin America, and Eastern Europe, where rising disposable incomes and shifting consumer aspirations are beginning to fuel demand for high-end goods. By strategically diversifying across regions and categories, Gucci can reduce dependency on specific markets while capturing fresh growth potential (Kapferer & Bastien, 2009, p. 173).

4.4.4. Threats: e.g., Competition, economic instability, counterfeiting.

The threats that Gucci faces are considerable and highlight the volatility of the global luxury industry. The most immediate threat comes from fierce competition, with rivals such as Louis Vuitton, Dior, Hermès, and Chanel investing heavily in digital innovation, experiential marketing, and exclusive product strategies that directly challenge Gucci's positioning. Economic instability is another pressing concern, as global recessions, currency fluctuations, and regional economic slowdowns can dampen consumer confidence and reduce discretionary spending on luxury goods. Gucci's strong reliance on China, while a strength in terms of revenue generation, also constitutes a vulnerability, as political tensions, regulatory changes, or social campaigns against conspicuous consumption could sharply reduce demand. Counterfeiting represents another persistent threat, particularly in Asia, where unauthorized products circulate widely and undermine Gucci's exclusivity, damaging both reputation and perceived value. Broader cultural changes also pose risks. Consumers are increasingly shifting their expectations, demanding inclusivity, transparency, and authenticity. Brands that fail to adapt may rapidly lose relevance. For Gucci, the challenge lies in navigating these external pressures while maintaining its distinctive identity and creative leadership, ensuring that threats do not erode the brand's global dominance.

CHAPTER V: EMPIRICAL ANALYSIS

In this chapter, I introduce the case study of my thesis, centered on a political risk analysis of Gucci in China. The aim is to test, in a concrete context of high relevance to the Italian luxury industry, the theoretical assumptions and analytical framework outlined in the previous chapters. The choice of Gucci allows us to observe how the political-institutional context and the Chinese market interact with the strategies of a global brand. The chapter proceeds by presenting the scope of the analysis, the materials and methodological criteria adopted, and then systematically develops the examination of risks and operational implications, leading to conclusions and recommendations useful for the overall discussion of the thesis.

5.1. Relevance

This research adds value to political risk studies and international relations and luxury brand management through its analysis of how artistic direction within Gucci interacts with external socio-political factors of nationalism and consumer activism to determine the company's risk exposure in China. The research unites three separate domains into one analytical framework through original evidence collection from expert interviews and multiple secondary sources. It achieves its purpose through its unique combination of theoretical and empirical approaches and develops a dual-factor model which identifies artistic direction and nationalism as the primary elements that determine creative luxury brand success in the Chinese market. The thesis uses quantifiable indicators to develop a specific method which moves past general country-risk evaluations and marketing studies. The research uses Gucci in China as its case study because the brand maintains high market visibility and creative sensitivity and operates in a crucial market where nationalistic sentiments can quickly intensify.

5.2. Why is Gucci relevant?

The Chinese market has shown disappointing results for Gucci which operates under Kering Group as the brand failed to match previous expansion patterns and outperform its competitors. The Chinese luxury market decline stems from three main elements which include changing national economic conditions and market trends and Gucci brand-specific challenges with its strategic approach and brand positioning and Chinese consumer preference evolution and rising domestic nationalism.

The Chinese luxury market has undergone a fundamental transformation in how consumers want to express their wealth through fashion. The market has adopted "quiet luxury" as its preferred choice because it represents understated high-quality fashion instead of previous loud logo-driven luxury trends. The wealthy demographic of Chinese consumers now selects refined elegant clothing over loud logoed designs because they want to present their status through sophisticated fashion choices. The global fashion industry adopted the "understated" luxury trend in 2023 because Succession TV series made viewers desire high-quality clothing without visible logos or excessive embellishments (Cantillon, 2024).
The Chinese social media platforms have adopted quiet luxury as a status symbol for wealthy individuals who display their status through perfectly crafted clothing and premium materials instead of using loud logos. People now follow two essential principles which include stylish designs without logos and premium quality without showy displays. The current Chinese market shows that young consumers choose understated luxury products with minimalist designs and high-quality materials instead of flashy logoed items. The 2000s saw Western brand logos function as status indicators but the current market shows a different preference. The modern consumer base views flashy branding as outdated and tacky because they prefer brands that present themselves as sophisticated and unobtrusive. The changing preferences stem from cultural elements within the society. The "Guochao" movement emerged in China to promote traditional Chinese cultural elements and aesthetic values at the same time as the quiet luxury trend gained popularity. Young consumers in China seek luxury items which reflect their national cultural heritage. The importance of authentic heritage elements continues to rise in the market. The global fashion industry including Dior and Louis Vuitton now uses traditional Chinese motifs in their collections to connect with this developing consumer preference. The Pre-Fall 2024 women's collection of Louis Vuitton debuted in Shanghai through designs by contemporary Chinese artist Sun Yitian who incorporated local cultural symbols into the brand's aesthetic. The combination of international luxury elements with Chinese cultural elements has gained widespread consumer appeal

(Antioco, 2025). The Chinese luxury market in 2024 demonstrates a more discerning and mature approach to shopping because consumers now value premium quality and exclusive products and cultural elements above flashy branding and fleeting trends. The style model which made Gucci successful during the Alessandro Michele era (2015-2019) faces direct competition from Chinese consumers who prefer understated luxury over maximalist and logo-heavy designs. The creative approach that brought millions of millennials to Gucci during its peak has become too bold for China's rising elite who want to express their status through understated fashion choices (Daxue Consulting, 2024).
The excessive style trend at Gucci started to decline when consumers started showing signs of fatigue for that particular aesthetic. The luxury market showed declining interest in Gucci before the economic downturn because customers grew tired of Alessandro Michele's bold and daring fashion style which lost its exclusive appeal. The brand faced a risk of exhaustion because the trendy vintage look with floral designs and double G logos lost its appeal to customers between 2019 and 2021-2022. The Chinese market reached its limit with Gucci's branding because it adopted new trends rapidly but also discarded them swiftly. The wealthy segment of consumers started to choose brands that offered exclusivity and minimalist designs such as Hermès and Loro Piana and Bottega Veneta and The Row and Dior's clean lines. The general market decline hit Gucci harder than other brands because the brand served as a primary example of flashy luxury which became unpopular when consumers moved away from this style.

In addition to external factors, there are reasons within the Gucci brand that explain its underperformance in China, linked to strategic and operational choices made in recent years. A first critical issue was the management of the brand during the pandemic. While rivals such as Louis Vuitton and Dior continued to invest heavily in marketing and market presence even during the difficult periods of 2020-2021, Gucci adopted a more wait-and-see approach. Kering reduced Gucci's marketing investments during the pandemic, perhaps out of caution or to preserve margins, but this had consequences: competitors gained ground in terms of visibility and desirability among Chinese consumers. In fact, LVMH (with LV and Dior) still recorded double-digit growth (+10%) in fashion and leather goods sales in the last quarter of 2022, just as Gucci was struggling with declining sales. This suggests that Gucci's reduced marketing efforts have caused it to partially disappear from the radar of some customers, especially younger ones who are bombarded by other brands' digital campaigns (Spencer & Aloisi, 2023).

Gucci's loss of momentum has been visible since 2019. After extraordinary growth between 2015 and 2018, growth normalized and then stalled. The 2022 results confirm this: Gucci ended the year with virtually flat operating profits (0% growth), a result that Kering's CFO described as “below expectations.” In the same year, Yves Saint Laurent (another Kering brand, smaller but very dynamic) saw its operating profits jump by +43% (Spencer & Aloisi, 2023). In practice, within the same Kering group, Gucci was losing momentum while other brands were growing at a rapid pace, indicating specific problems with the brand. The company admitted that Gucci had “lost momentum” and was lagging behind direct rivals such as Louis Vuitton and Hermès in terms of growth and desirability.

Another critical factor is the constant turnover at the creative and managerial top of Gucci, which has generated uncertainty. Alessandro Michele, the designer behind Gucci's relaunch in 2015, suddenly left his creative director role at the end of 2022. The decision came precisely because customers were beginning to tire of his eclectic and daring creations and a ‘new vision’ was needed (Rascouet, 2025). This was followed by almost a year of creative vacuum (collections designed by the in-house team without an official creative director), until the arrival of Sabato De Sarno (from Valentino), whose first collection was only presented in September 2023 (Spencer, 2024). This delay meant that for many seasons Gucci did not offer any strong new products, missing opportunities to engage with the Chinese market, where novelty and hype are crucial. Unfortunately, De Sarno's streamlining strategy, simplifying and making the Gucci style more essential, did not have time to bear fruit: at the end of 2024, the results were still negative, and in January 2025, Kering decided to change again, relieving De Sarno of his duties (Law, 2024). This was therefore a ‘double revolution’ in the space of three years: first Michele's departure, then De Sarno's arrival and departure in quick succession. Currently (2025), creative direction has been entrusted to Demna Gvasalia (designer at Balenciaga, also part of the Kering group), a high-profile name called upon to revitalize Gucci. These frequent changes signal turbulence in the brand's creative vision and positioning, which may have confused Chinese consumers: in practice, Gucci has swung from maximalism to minimalism in the space of a few years, risking losing a clear identity during the transition.

At the same time, there have also been changes in management and retail. Kering has launched a “major overhaul” of Gucci in 2023-2024, replacing several top managers and reviewing its distribution strategy. It was decided to close dozens of underperforming stores around the world (over 50 boutiques are being eliminated) and to focus on fewer but more productive points of sale. This move indicates that Gucci may have overextended its retail network during its golden years and is now seeking to increase exclusivity and cut costs. In addition, Gucci has tried innovative formats such as invitation-only VIP salons (e.g., in Los Angeles) to serve ultra-wealthy customers, only to close them if they are not profitable. These experiments denote a brand in search of the right formula to win back the luxury elite (Spencer & Hummel, 2025).

To sum up the internal challenges: Gucci suffered from strategic errors or delays (reduction in marketing during Covid, slowness in adapting to quiet luxury), saw the appeal of its “signature” style decline as tastes changed, and underwent creative direction changes that weakened its unique message in the market. All this while its competitors were pushing hard. It is therefore not surprising that Gucci is lagging behind in recent financial data: in the first quarter of 2025, Gucci's sales fell by a further 25% year-on-year, a decline well worse than Kering's average of 14%. Top management has spoken openly about Gucci's “crisis” and the lack of signs of recovery in the short term. The decline in traffic in Gucci stores is also significant: Kering executives reported “a sharp downward trend in store visits” for 2024, indicating that fewer Chinese consumers were entering Gucci boutiques than in the past. This is both an effect of the causes outlined above (less desire for the brand, fewer luxury purchases in general) and, in turn, a cause of sluggish sales. In short, Gucci finds itself having to regain relevance and desirability in the eyes of the Chinese public, but starting from an unfavorable macroeconomic context and with internal errors to correct.

5.2.1. Comparison with its competitors

Another way to understand the reasons behind Gucci's decline in China is to compare its performance with that of other luxury brands during the same period. This comparison highlights the difficulties that are specific to Gucci and not just the result of a weak market. The data clearly shows that Gucci has performed worse than the average of its competitors in China in recent years.

For example, in Q4 2022 (when China was in lockdown), Gucci recorded a 14% drop in global sales, while LVMH's fashion and leather goods division (driven by Louis Vuitton and Dior, with strong exposure in China) grew by 10% over the same period (Spencer & Aloisi, 2023). In other words, while everyone was facing difficulties in China, Louis Vuitton and Dior continued to grind out growth, stealing market share from Gucci. Part of the credit, as mentioned, goes to their aggressive marketing strategy and ability to launch collections and collaborations even in complex times (e.g., virtual fashion shows on WeChat, localized limited editions, etc.), something in which Gucci remained more cautious.

Another illuminating comparison is with the results of Hermès and hard-luxury brands during the recent slowdown. Hermès, the emblem of "quiet luxury" and extreme exclusivity, maintained solid sales in China and, in fact, surpassed LVMH in terms of market capitalization in Europe in 2023, a sign that the market rewards brands perceived as safe havens. Gucci, on the other hand, does not enjoy the same level of perceived exclusivity and has suffered as a result. Even Prada and Cartier (Richemont) have fared better on the Chinese market than Gucci, thanks to a successful revamp (Prada) and the pull of luxury to celebrate occasions (Cartier jewelry). The stock market reflects this differential: as shown in the chart above, between January 2023 and mid-2025, Kering/Gucci shares plummeted, while LVMH, Richemont, and Prada shares held up or lost much less.

Within Kering itself, YSL and Bottega Veneta significantly outperformed Gucci. In the first half of 2025, while Gucci fell by 25%, Bottega Veneta actually grew slightly (+2%) and Saint Laurent limited its decline to 10%. This indicates that Gucci's difficulties are not simply due to a "Kering effect" or the fact that Kering brands were boycotted in China: rather, it is Gucci, in particular, that has lost appeal compared to its competitors. Bottega Veneta, for example, has benefited from an image more in line with quiet luxury (clean design, no logos, high-quality craftsmanship), making it attractive to those who now snub Gucci. Saint Laurent has a different clientele (more concentrated in the West), but its rock-chic aesthetic has continued to seduce some Chinese consumers, unlike Gucci, which has seemed to be "searching for an identity." (Kering, 2025).

5.3. Methodology

The research design follows a sequential mixed-methods approach which starts with a broad sector assessment before conducting interview-based case studies. The research begins by using quantitative data from Statista and Bain & Company industry reports to study the Chinese luxury market while combining these statistics with academic research to determine the persistent threats luxury brands encounter in China. The research focuses on Gucci after establishing its worldwide development pattern and Chinese market position to identify risks that affect both the Chinese market and Gucci's strategic operations (as explained in the previous section). The research used three semi-structured interviews with luxury brand management experts and Chinese politics specialists to validate and strengthen the findings about nationalism. The thematic analysis of interview transcripts revealed nine distinct risk factors which formed a Gucci-specific matrix that combined organizational control elements with elements specific to the Chinese market. The research team established independent risk factors which prevented duplicate assessment of similar elements. The assessment of each factor's impact and probability used an ordinal scale which combined data from industry reports with academic research and expert opinions to select two independent drivers that created four possible future scenarios for Gucci in China. The interviews delivered essential value by defining operational terms precisely and establishing risk importance levels and directing the recommendations for channel strategy and brand protection and investment speed.

Each interview was transcribed and subjected to thematic coding to identify recurring categories, causal relationships, and illustrative quotations. This primary evidence was then triangulated with the extensive documentary base of about 150 sources, including official Chinese policy documents (MOFCOM, State Council, NDRC), international economic and risk reports (Bain & Company luxury market studies, Fitch Solutions BMI, MarketLine industry profiles, UNCTAD and WTO trade data), and a wide range of academic and professional analyses (Freedom House, V-Dem, PRS Political Risk Yearbook, S&P Country Profiles, Bloomberg, and Reuters investigations). By explicitly cross-referencing interview insights with these diverse materials, the research ensured that qualitative observations were substantiated or contrasted by observable macro-economic and institutional indicators.

The empirical contribution informs multiple layers of the study. First, it validates the selection of key drivers, artistic direction and economic nationalism/consumer activism, for the cross-impact matrix. Second, it enriches the four scenario narratives with direct expert testimony, giving them explanatory depth and strategic relevance. Third, it supports the formulation of policy and managerial recommendations tailored to Gucci's operations in China. Throughout Chapters IV and V, verbatim quotations are integrated to demonstrate how expert views underpin critical assumptions and risk assessments.

As with any qualitative design, the small number of interviews cannot claim statistical representativeness. Expert selection was necessarily limited by time and access. To mitigate these constraints, the analysis privileges conceptual richness over breadth and systematically checks each qualitative claim against the extensive documentary evidence. The combined use of primary and secondary sources also reduces the risk of bias linked to individual perspectives

5.4. Interviews

Interviewees were selected through purposive sampling to combine academic and managerial expertise relevant to Chinese political risk and luxury consumption. Professor Xu Zhengyuan and Professor Liang, both from the prestigious Renmin University of China, were chosen for their in-depth knowledge of Chinese politics, nationalism, and consumer sentiment. Their long-standing research on state–society relations and economic governance made them particularly suitable to illuminate how political currents translate into market dynamics. Professor Denis Morisset, former COO of Ralph Lauren Europe, former Managing Director of Giorgio Armani France, and currently Director of the Executive Luxury Marketing Program at ESSEC Business School, was invited for his extensive professional experience in luxury brand management and his 13 years of teaching in China at leading universities such as Peking, Fudan, and ESSEC Asia. His dual academic and executive background allowed a critical counterpoint to the Chinese academic perspectives. All experts agreed to be identified by name and affiliation.

Before each interview, the research purpose and intended academic use were explained in detail. Verbal consent was obtained for both participation and citation of statements. No sensitive personal data were collected. Audio recordings and detailed notes were stored securely and are used exclusively for scholarly purposes, in compliance with LUISS research ethics guidelines. The voluntary nature of participation was reiterated at the start of every session.

Interviews were in a semi-structured format lasting approximately 30 – 45 minutes each. The interview guide covered four main thematic blocks:

1. Political and regulatory risks in China, including nationalism, consumer activism, and EU-China relations;
2. The evolution of luxury consumption and the interplay between artistic direction and market trends;
3. Strategic risk management for Western luxury brands operating in China;
4. Future outlook and scenario testing for Gucci's positioning. The semi-structured design ensured comparability across respondents while leaving space to explore unexpected insights or to probe emerging issues more deeply.

The research team used expert sampling to pick participants who would provide both Chinese political insights and European management expertise. The selection of Professors Xu and Liang from Renmin University of China was based on their established reputation for Chinese studies and international relations expertise which enables them to analyze how nationalism affects public attitudes and consumer choices. The European perspective on brand operations and management received representation through Denis Morisset who brings his experience as Chief Operating Officer at Ralph Lauren Europe and Managing Director at Giorgio Armani France and his current role as Director of Executive Luxury Marketing programs at ESSEC Business School. The research design combines two expert perspectives which minimizes home-country bias through the Renmin scholars who study state-society relations and nationalism-driven reputation risks and Morisset who provides European management expertise to link these factors to assortment decisions and pricing control and channel distribution and client service and creative direction. The research produces risk factors and scenarios and operational recommendations that align with Chinese political realities while providing specific guidance for European luxury brand Gucci operations.

5.4.1. Professor Denis Morisset

The interview with Denis Morisset was designed as a semi-structured conversation to surface practitioner insights on how European luxury brands should position themselves in mainland China, with a focus on Gucci. The discussion opened on the engines of demand and execution: sustained, long-horizon investment in retail and brand communication; genuine empowerment of strong local teams attuned to China's fast-moving digital ecosystem; and disciplined reputation management in a climate where peer-to-peer information flows on WeChat can amplify cultural-sensitivity missteps. It also highlighted the structural role of the grey market/daigou, distinct from counterfeiting but equally corrosive to client control and pricing architecture. The strategy focused on three immediate priorities which included protecting current investments from cuts and deepening HNWI client relationships and enhancing digital capabilities through local experts who understand market dynamics. The fashion and hard luxury sector depends on physical retail stores for core value creation but marketplaces function as traffic generators that lead customers to physical locations. The shopping destination preference has shifted from Hong Kong to mainland China because it offers tax benefits and experience-based formats such as flagship stores with cafes and hospitality partnerships help maintain product desirability. On the external environment, the interview downplayed large, direct effects from EU–China geopolitics relative to U.S.–China tensions, while noting that campaign-style policy shifts (e.g., anti-excess, celebrity restrictions) can still ripple through luxury demand and communications.

The conversation concluded with a risk taxonomy and mitigants: policy and regulatory compliance (data/cyber, e-commerce rules), reputational exposure (KOL selection, social listening, crisis playbooks), channel and pricing discipline (grey market control, harmonization), organizational execution (HQ–China alignment, talent), rising domestic competition, and FX management—addressed through strong local governance, empowered decision-making, clean distribution and pricing, and relentless VIP clienteling.

5.4.2. Professor Xu Zhengyuan

This semi-structured interview with Professor Xu from Renmin University of China makes it clear how China sees Europe right now and how that affects the brand risk for Western luxury brands. Xu characterizes the EU as a significant economic partner and a unique entity within a multipolar framework, while acknowledging the practical constraints of European strategic autonomy and a persistent inclination to converge with U.S. positions on critical security and technology issues. Xu characterizes nationalism as a multifaceted phenomenon, civic, cultural, and economic, that typically remains dormant but can surge swiftly in response to specific stimuli (diplomatic tensions, culturally misinterpreted campaigns), occasionally manifesting as consumer activism. In these situations, the best thing for a company to do is to respond right away with honesty and action, a clear explanation, a quick apology, and a visible step to fix the problem, because waiting makes the backlash online worse and invites more scrutiny. Diplomacy (Chinese and European) can help cool things down by keeping lines of communication open and putting events in context, but it can't replace action at the firm level.

5.4.3. Professor Liang Xuecun

The interview with Professor Liang at Renmin University of China examines how modern Chinese economic nationalism affects luxury consumer examine (i) the development of pragmatic nationalism since 2018 and its occurrence during diplomatic conflicts and behavior and its implications for Gucci's political reputation in China. The discussion follows four main sections which social media trends (ii) The mechanisms through which Weibo/Douyin users become active and their typical responses include delaying purchases and demanding solutions and short-term boycotts (iii) The relationship between creative direction and cultural reception shows how superficial Orientalist elements differ from genuine dialogues with contemporary Chinese design sensibilities and (iv) Western luxury brands should adopt social listening for early warning systems and establish institutional dialogue and CSR programs while making a long-term strategic market commitment. The interview data serves as primary evidence that enhances the documentary evidence to make the case study more empirically robust.

5.5. Cross–Impact Matrix

The cross-impact matrix was created by first selecting a limited set of risk factors relevant to Gucci in China. The literature suggests choosing a limited number of variables to keep the cross-analysis manageable. The factors chosen are specific, concrete, and logically independent: for example, Digitalization, Brand Perception, Artistic Direction, Counterfeiting, Nationalism, Regulatory Environment, Consumer Preferences, Geopolitical Tensions, and Economic Slowdown. Each factor was defined based on empirical evidence (reports, industry studies), and expert interviews to ensure that it represents a distinct risk. This approach made it possible to construct an n×n matrix (in this case 9×9) in which each cell highlights the bidirectional relationship between two factors. The use of this method is consistent with the practices of “futures studies” and scenario analysis, which emphasize understanding the interdependencies between variables.

Each factor was selected for its specificity in the context of luxury goods in China and for its relative operational independence, while recognizing the inevitable interconnections:

Economic Slowdown

It represents the fundamental macroeconomic driver influencing Chinese consumers' spending power. Its specificity lies in its direct impact on luxury consumption patterns, as demonstrated by the 20% decline in Gucci sales in Q1 2024. It summarizes the overall performance of the Chinese economy. Recent indicators (real estate crisis, monetary tightening policies) have impacted consumer confidence. Low growth levels and deflationary pressures can reduce luxury spending, as seen with the decline in Gucci sales in China. This factor is cross-cutting: as it varies, the consequences of all other risks are amplified or mitigated (Creery, Zhao, & Hoffman, 2024).

Geopolitical Tensions and EU-China Relations

This constitutes a relatively independent of internal market dynamics, operating on a supranational scale. As Morisset observes, “the Chinese government is very good at separating geopolitics from business”, but it remains a factor of structural uncertainty. At the same time, Morisset observes that, a possible escalation of the Taiwan situation, would have a very high impact on european luxury firms in China.

Consumer Preference

It reflects the trends in taste and behavior of Chinese buyers. The Chinese market is evolving alongside Generation Z/millennials, who show an interest in innovation, sustainability, and digital experiences. It is specific to purchasing behavior and independent of government policies, representing the autonomous evolution of Chinese consumers' aesthetic preferences and values, such as a current shift to quiet luxury and staples, so brands like Hermès and Loro Piana.

Regulatory Environment

It includes Chinese policies and regulations that affect the luxury market. For example, anti-corruption and frugality campaigns (government policies against the ostentatious display of wealth) have already weakened demand for luxury goods in recent years. Recently, changes in e-commerce laws, personal data laws, and measures targeting daigou (shopping and parallel resale) may alter Gucci's distribution channels. The Chinese regulatory framework is a structural risk because regulations change rapidly and can turn opportunities into constraints. It operates as an independent institutional variable, with its own dynamics linked to governance and regulatory compliance.

Nationalism

It indicates the growth of nationalist sentiment among Chinese consumers (the “guochao” 国潮 phenomenon). Citizens increasingly prefer local products that enhance cultural identity. In recent years, there has been a decline in the exclusive appeal of Western brands, with a general “shift towards local” especially among young people. Nationalism acts as a pressure factor on demand for Gucci: cultural incidents or geopolitical tensions can quickly translate into boycotts or a decline in confidence in foreign brands, as seen in cases like the Dolce and Gabbana controversy. It represents a specific socio-cultural phenomenon that can be distinguished from formal geopolitical tensions, operating at the level of popular sentiment.

Counterfeiting

It reflects the phenomenon of counterfeit products. China has long been considered the world's leading source of counterfeit goods, a phenomenon that erodes brand exclusivity and revenues. A saturation of replicas in online and offline channels can diminish the perception of Gucci's prestige (consumers become accustomed to the brand as "mass market"). In recent years, however, the Chinese authorities have also been stepping up IP protection, but the risk remains central for international luxury brands. It constitutes a specific operational risk in the luxury sector, with its own dynamics linked to the enforcement of intellectual property rights.

Creative Direction

This concerns Gucci's creative and stylistic choices (for example, the shift from Michele's flamboyant aesthetic to De Sarno's "minimalism"). In China, changes in artistic direction have been viewed critically: recent, more understated collections have been judged "less distinctive" and compared to less exclusive brands (Creery, Zhao, & Hoffman, 2024). Therefore, artistic direction strongly influences brand perception in the Chinese market, where an overly standardized aesthetic can weaken appeal. It also refers to the approach that new creative directors decide to take towards China and Chinese consumers (e.g. capsule collections). It is an endogenous factor for Gucci, relatively independent from external factors, but with a significant impact on brand perception.

Digitalization

This factor refers to the pervasiveness of digital technologies in luxury marketing and sales (e-commerce, social media, livestreaming, etc.). In China, this dimension is crucial, as many consumers purchase luxury products online through integrated platforms (WeChat, Tmall, Douyin). A strong digital strategy can amplify brand perception (through targeted campaigns) and influence consumer preferences, making China a "second commercial space" for Gucci (TMI & BCG, 2024).

Inhibiting Enhancing Unrelated

Factors	Economic Slowdown	Geopolitical Tensions & EU-China Relations	Consumer Preference	Regulatory Environment	Nationalism	Counterfeiting	Artistic Direction	Digitalization
Economic Slowdown	Self	E Blame foreign protectionism	E Value-conscious behavior	E Protectionist Policies	E National Pride	E Demand for alternatives	I Constrain Investments	E Drive e-commerce
Geopolitical Tensions & EU-China Relations	E Supply chain stress	Self	E Domestic brand shift	E Protectionist Policies	E Fuel nationalist sentiment	E Reduce enforcement cooperation	I Constrain Creative freedom	U
Consumer Preference	U Result of economic conditions	U	Self	E Gen Z drives changes	E Domestic Brand Preference	U	E Culturally relevant designs	E Accelerate e-commerce
Regulatory Environment	E Heavy taxation pressure	E Regulatory retaliation	E Drive towards alternatives	Self	E Fuel Nationalist pride	I Stronger IP courts	I Constrain Creative freedom	E Facilitate shopping
Nationalism	E Domestic preference	E Contributes to tension	E Drive domestic preference	E Drive protectionist policies	Self	E Reduce Enforcement cooperation	I Constrain foreign creativity	U
Counterfeiting	I Reduce legitimate sales	U	E Accelerate value purchasing	U	U	Self	I Constrain design innovation	E Enable detection platforms
Artistic Direction	U	U	E Minimalism aligns with prefs	U	U	U	Self	E Digital storytelling
Digitalization	I Offset retail decline	U	E Accelerate shifts	E Drive regulatory needs	U	E Enable detection platforms	E Enable expression	Self

Figure 22: Cross – Impact Matrix

5.6. Risk assessment map

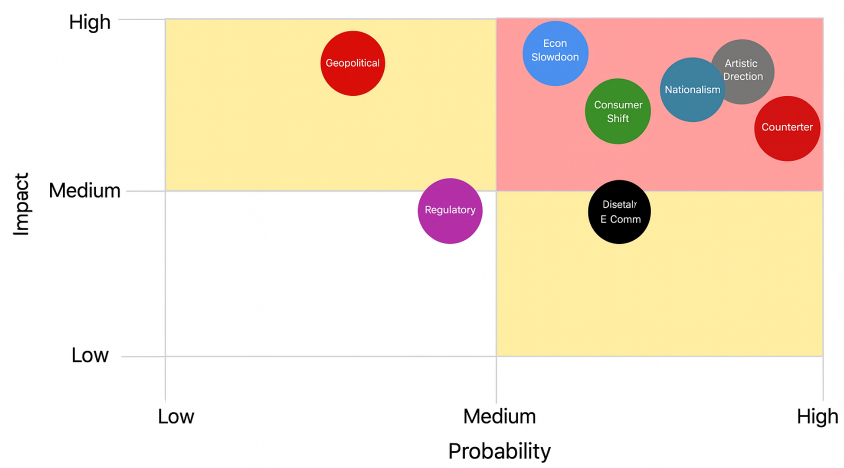

Figure 23: Risk assessment: High Impact – Low Probability

Figure 23 presents an updated heatmap of Gucci-specific risk factors in the Chinese market, plotting impact (vertical axis) against probability (horizontal axis).The colored zones signal the combined gravity of each risk.

First of all, the red zone indicates high impact and high probability, and it is the most critical cluster. It includes Creative Direction, Nationalism, (Customer Activism) and Counterfeiting.

The upper-middle area, instead, represents medium probability, high impact, and hosts economic slowdown and consumer shift, reflecting a significant macro-demand exposure.

The yellow areas indicate medium to low probability and/or impact. They contain regulatory environment and digital/e-commerce, which are very relevant nowadays, but in this context they are less immediately disruptive.

Finally, the upper-left sector is constituted by high-impact/low probability factors and contains geopolitical tensions, signaling potentially severe but less predictable shocks.

This configuration is the result of all the extensive empirical evidence gathered in the thesis, together with data from interviews with experts.

In this specific case study, that focuses on a specific brand, Gucci, in China, artistic direction and nationalism stand out the most. Artistic direction stands out because Gucci’s growth cycles have historically hinged on creative leadership changes (e.g., from Alessandro Michele to Sabato De Sarno, or after Tom Ford). Professor Denis Morisset underlined that “Gucci’s success is highly cyclical and strongly dependent on changes in creative leadership,” confirming the high-impact, high-probability placement. While it is extremely common for luxury brands to change creative direction every few years, Gucci demonstrates an exceptional tendency towards frequent switches. The house experiences significant changes in both its desirability levels and sales performance after each creative director transition which leads to fast-paced aesthetic transformations between sleek sensuality and minimalist classicism and maximalist eclecticism and quiet luxury. This is much more uncommon for brands such as Versace and Prada, whose creative direction has been the same for many years now (except recent changes). Creative direction changes occur frequently in all industries, yet Gucci stands out because of its high rate of creative leadership shifts and substantial brand impact, making artistic direction a key risk factor for a scenario analysis.

Nationalism/consumer activism operates as an outside factor for Gucci but the Chinese state controls its implementation. The scenario framework presents nationalist sentiment peaks as political elements which operate outside company boundaries. The literature shows that these nationalist movements function as state-controlled systems which leaders can use to achieve their goals through "pragmatic nationalism." The mechanism produces two outcomes when geopolitical tensions rise: consumers start boycotting products or they become hesitant to make visible luxury purchases. The political tensions between nations create event-driven spikes that lead to consumer hesitation about buying luxury items and sometimes result in boycotts. The online reactions of Chinese citizens have become more common and forceful under Xi's leadership which makes Western brands more susceptible to both increased risk and severe consequences.The interview with Prof. Liang at Renmin University shows how Chinese "pragmatic nationalism" creates brief changes in consumer changes that affect luxury goods visibility. The combination of academic research and interview data supports a high impact and high probability assessment during times of geopolitical tension.

Counterfeiting remains a persistent structural issue in China's luxury market, threatening brand equity and sales. Market studies (e.g., OECD/EUIPO reports) support its location in the critical quadrant. Economic slowdown and consumer shift are placed slightly left of the red zone because, while demand softening is visible, China still shows mid-term growth resilience and strong Tier-1/Tier-2 luxury appetite. Geopolitical risk has a very high potential impact but is less frequent, consistent with the pattern of episodic trade or diplomatic shocks. Regulatory changes and digital/e-commerce risks are medium-impact, as they are largely manageable through compliance and agile omnichannel strategy.

This map confirms the selection of Artistic Direction and Nationalism/Consumer Activism as the two axes of the scenario matrix (Section 5.5). They are critical to performance, directly affecting consumer desire, pricing power, and brand reputation, independent/orthogonal, one internal to Gucci's creative management, the other external and socio-political empirically validated, drawing on ~150 documentary sources and on interview insights from Professors Morisset, Xu, and Liang.

5.7. Scenario Analysis

The choice of axes reflects the brand-centric logic of the case study. Economic slowdown represents an exogenous driver with high impact and high probability in the Chinese context, capable of spreading to the demand, pricing, and product mix mechanisms identified by the cross-impact matrix. Brand perception, on the other hand, is an endogenous capability specific to the Gucci case: it synthesizes the combined effect of artistic direction, digital orchestration, and cultural sensitivity (including nationalism), and acts as a "modulator" that can amplify (E) or attenuate (I) the transmission of macro shocks to brand demand. The axes are not fully orthogonal, but they are analytically distinct (macro cycle vs. reputational capital) and, above all, actionable by management, which is why they are suitable for generating operational scenarios for Gucci in China

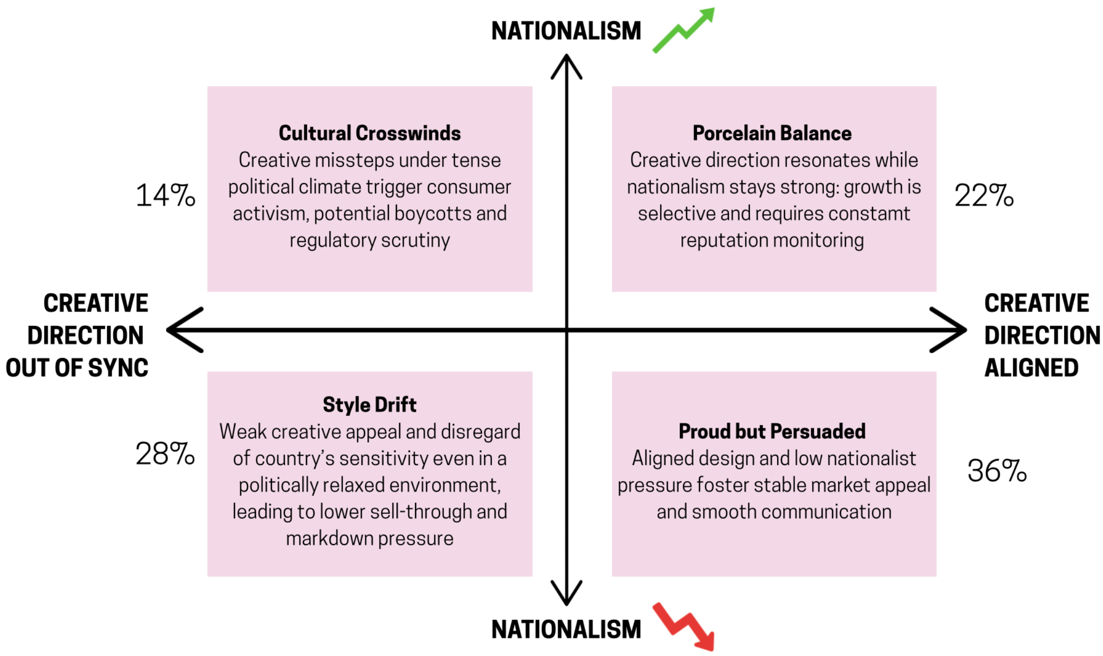

Figure 23: Scenario Analysis

5.7.1. Porcelain Balance

Artistic direction aligned × Nationalism low

In this scenario, the creative direction is aligned with Chinese customers' taste and sensibility, and the demand is relatively open to European brands, not just Chinese brands. Even if Chinese brands are still growing and gaining more and popularity, European luxury brands are not losing their momentum. There is a fluid storytelling between social media and retail, and pricing is under control. The creative approach of Gucci matches the fundamental needs of its Chinese customer base throughout this development path. The brand collections showcase sophisticated materials and modern designs with modern functionality while using visual elements that prevent cultural stereotypes and superficial Chinese cultural references. The brand story travels freely between Chinese social media platforms and retail locations because there are no negative brand associations on these platforms. The current state of Western brand discussions in China focuses on practical product aspects because consumer activism remains inactive and the market values design quality and store experiences. The customer base consists of high-net-worth individuals and loyal customers from Tier-1 cities, and the brand continues to attract aspirational consumers from developing Tier-2 areas.

The market shows a controlled recovery of full-price sales with boutique stores leading brand narrative delivery and premium sales yet digital channels serve as traffic generators. The unified pricing system between Mainland China and Hong Kong and duty-free areas blocks price manipulation between borders which safeguards brand value and market stability. The main operational challenges stem from assortment management and size distribution and inventory replenishment rather than political factors in this market environment. Professor Denis Morisset explains that China demands long-term strategic investment in retail and communication because it represents a strategic commitment rather than a short-term tactical opportunity. The fashion and hard luxury sectors achieve their best results through offline sales while marketplaces function as display spaces that direct customers to physical stores according to Morisset. The combination of price equality and enhanced control over daigou and grey market activities protects both protects brand value and maintains the core customer base according to Morisset. Professor Xu, instead, shows China maintains its economic partnership with the EU thus supporting the expectation of ongoing commercial relations.

The reasons why this scenario is likely to happen, but not the most likely, are the following. Gucci's performance in China has historically been cyclical and closely tied to shifts in creative direction. Based on the data discussed earlier and insights from Professor Morisset, the brand's recent underperformance under Sabato De Sarno reflects those dynamics; a pivot to a new aesthetic could plausibly restore momentum. Over the past few years, aside from some missteps, Gucci has been mindful of Chinese cultural sensitivities and has targeted the market with mixed but sometimes effective initiatives, such as Lunar New Year capsules and Gucci Tian under Alessandro Michele, which sought to weave Chinese motifs into the brand's narrative. These efforts suggest the house can again build authentic connections with Chinese consumers. At the same time, Professor Liang cautions that nationalism and rising skepticism toward European brands are likely to intensify, a view consistent with Professor Xu's observation that the EU is

aligning more closely with the United States. Coupled with a likely protracted economic slowdown and the continued rise of Guochao, these headwinds may persist even if a creative reset improves brand resonance.
Likelihood percentage: 22%,. Calm sentiment windows in China are plausible but typically intermittent; during such periods, an already aligned creative proposition plus price harmonization and boutique-led execution sustains full-price sell-through. Interview evidence indicates EU–China frictions are generally less disruptive than U.S.–China, making these windows viable but not the baseline.

5.7.2. Proud but Persuaded

Artistic direction aligned × Nationalism high

In this scenario, a more directional, fashion-forward reset with sharper silhouettes and reinforced brand codesmaintain its appeal to Chinese consumers, but the social and political environment becomes increasingly sensitive. The combination of nationalistic feelings and preference for domestic brands leads to fast political interpretations of marketing campaigns while regulators show occasional monitoring of influencer activities and celebrity promotions and cultural missteps. The product remains desirable, but companies face an increased expense when they make operational errors. The Guochao trend is intensifying.
The impact of this scenario is that Chinese consumers easily accept Gucci’s aesthetic because they perceive respect for their culture. The brand can grow organically without facing significant resistance, maintaining its leadership position in the Chinese luxury market.
Creative concepts that demonstrate strength need to navigate through multiple layers of cultural and regulatory requirements. The business model shows controlled expansion with increased market fluctuations. The brand achieves strong sales performance through its localized storytelling approach and ambassador selection process which results in high customer engagement. Furthermore, the new creative direction can understand the new trends and it is capable of adapting, creating new collections, special for Chinese consumers, that reflect them, without imitating other brands. Due to the increased national scrutiny, also explained by the EU-Usa and EU-China dynamics that Professor Xu

explained (see paragraph above), a single incorrect visual element or slogan or partnership choice will shift customer interest from products to political issues which results in decreased conversion rates for several weeks. The brand faces a minor challenge because some new customers choose to buy domestic "pride" labels for public categories which reduces Gucci's customer base to VIP clients who prefer classic designs over logo-driven products.

The impact of this scenario is that nationalism amplifies appreciation for Gucci’s culturally respectful approach. Consumers view the brand as an ally that celebrates Chinese culture rather than exploiting it, fostering strong loyalty and positive word-of-mouth.

Furthermore, according to Morisset, in a more sensitive context such as this one, culturally motivated “mini scandals” could arise and rapidly degenerate on WeChat, since Netizens are gaining a stronger voice, and this could move attention away from fashion to politics, so even with a desirable product, KOLs discipline and a “crisis playbook” are needed. According to Professor Xu, in these scenarios (nationalist peaks), the best and most efficient answer by Gucci is to immediately apologize and demonstrate a good attitude, to reduce the impact. Even if this scenario seems more unfavorable compared to the first one, it isn’t. In fact, it could represent a big comeback opportunity for Gucci. In fact, a successful approach to this situation demands organizations to establish a structured system which oversees cultural aspects of creative work and communication activities. As Professor Morisset states, one of the key issues of Gucci in China is that the European HQs, despite hiring local teams in China, do not really listen to what they have to say, and instead remain slow and conservative, which then costs alignment and speed. For this reason, if Gucci decides to pay more attention to local teams and goes over its “European brand sense of superiority”, as Morisset states, then it could regain momentum and come out with collections that would reestablish Gucci’s prestige in China. These local teams, other than consulting on possible sensitivity issues arising, could also keep Gucci up to date with the current trends, and help align the creative direction with nationalist sentiment.

Likelihood percentage: 36%. Nationalism in China tends to be episodic and event-driven; with creative alignment in place and rapid response protocols (social listening, disciplined KOLs, prompt apology/correction), brands can trade through spikes with contained damage. Prior positive reception of the current leadership's work in China and Kering's incentives to preserve Mainland market make this the modal configuration.

5.7.3. Style Drift

Artistic direction out of sync × Nationalism low

In this scenario, Gucci's artistic direction is not aligned with Chinese cultural preferences, while the nationalist environment remains moderate. This could occur if creative shifts ignore local sensitivities or adopt aesthetics that appear disconnected from Chinese culture. The internal design logic of the collection fails to strike the perfect balance between high-end sophistication and middle-to-lower status indicators while also failing to grasp the refined tastes of affluent Chinese consumers at premium price points. The product-market fit problems become evident through extended sales periods and increased off-price sales to clear excess inventory and diminishing customer perception of value. Store personnel dedicate more time to explaining collection concepts instead of making sales while digital platform users focus on product fit and price value instead of product desirability. As a result, sales may stagnate while more culturally aligned competitors gain market share. Chinese consumers could gradually drift away from the brand, not out of hostility, but due to a lack of emotional relevance.

Since Gucci's fashions, as I mentioned before, tends to be cyclical and, according to Professor Morisset, it often tries to be "everything for everyone", it is more exposed to sentiment switches.

The business results from this situation include higher inventory levels and increased markdown percentages which reduce the brand's premium pricing power. The competitive landscape becomes increasingly difficult for the company because competitors who maintain better product alignment continue to attract more customers and gain market share. The organization faces a managerial issue because its global headquarters controls assortment decisions too tightly while data analysis takes too long to reach creative teams and the China organization lacks freedom to modify products and colors or speed up new product releases.

To face this scenario, Morisset states that it is important to keep up with local digital and data velocity and empowerment, in order to realign the value proposition before the gap translates into market-share losses in favor of more data-native competitors.

The commercial storytelling at boutiques requires adjustment through new visual displays and try-on procedures and service offerings while digital content should shift from abstract moods to product usage scenarios and craftsmanship details. The brand will become stronger through this decisive approach which will take only a few seasons to reverse the situation while building data-driven capabilities and better understanding of Chinese consumer preferences.
Likelihood percentage: 28%. Even in calm political conditions, Gucci's historical cycle risk means a mis-timed aesthetic can trigger assortment mismatch and markdown pressure; this remains a material but second-order risk. That said, recent China-positive precedents for the creative leadership and tight commercial governance limit the duration and depth of any drift.

5.7.4. Cultural Crosswinds

Artistic direction out of sync × Nationalism high

The riskiest scenario combines a culturally insensitive artistic direction with heightened nationalism. This can trigger controversies like Dolce & Gabbana's 2018 "chopsticks" ad, or the troubles faced by Versace, Coach, and Givenchy over territorial-designation issues. The combination of creative mismatch with rising nationalist feelings creates this negative situation. The aesthetic choices which failed to win on brand intentions instead of product quality because of the controversy. The brand receives negative earned media while consumer approval now face political interpretation which leads to public criticism and regulatory oversight. The public discussion now focus KOLs become hesitant and platform partners reduce their support for visibility. The public visibility of loyal clients decreases while boutique appointment numbers and event participation numbers decrease because of the cold reception. The brand faces an operational challenge that requires simultaneous action. The brand needs to withdraw or modify its assets and replace its representatives and stop particular marketing initiatives to protect its equity but these actions will disrupt sales schedules and leave unsold products on the market. The team needs to allocate more resources to social listening and regulatory liaison and community management during this time which increases SG&A expenses when revenue performance weakens. The negative impact of discounting unsold products to clear inventory will create a lasting reference price problem which extends the recovery period beyond the time when the brand's reputation improves. The successful handling of this situation requires experienced crisis management together with a genuine cultural transformation. A prepared response system should outline decision authority and communication guidelines while using company-owned platforms for clear messaging and show immediate changes based on initial negative feedback. The brand needs to gather a small group of respected Chinese creatives and scholars who will review all creative elements before China market re-entry to show respect and learning without compromising brand values. The brand needs to focus on protecting its most valuable clients through exclusive events and personalized services and low-key customer relations while minimizing their exposure to market volatility. Gucci needs to create a new creative strategy for China through reduced product lines and minimal experimental visuals and focus on materials and signature designs to achieve trust recovery at a controlled pace.

Likelihood percentage: 14%. This tail scenario requires a double coincidence, aesthetic misread alongside a nationalism spike, often sparked by symbolism sensitivities; its joint probability is low given strengthened cultural pre-clearance and crisis playbooks. However, when it materialises, consequences are severe (earned-media negativity, platform friction, VIP churn), justifying a non-trivial allocation.

5.8. Recommendations

5.8.1. Gucci

Gucci should create a formal process for cultural assessment and local input evaluation to prevent unintentional cultural offenses. The Chinese nationalist social media environment produces massive backlash against foreign brands when they make small cultural mistakes as Dolce & Gabbana learned through their 2018 advertisement controversy which resulted in consumer boycotts and show cancellation in Shanghai.The Chinese market represents a complete loss for brands that fail to understand Chinese cultural norms. The company has managed to stay clear of major public relations disasters (The model's Asian-inspired makeup received criticism but the incident did not spread widely).

The company needs to establish a Chinese advisory board consisting of local creatives and academics who will review marketing materials for potential cultural issues while providing design and marketing teams with cross-cultural sensitivity training. The brand needs to establish social media monitoring systems and crisis management protocols which experts confirm will help control reputation damage during real-time situations. The company can minimize brand equity loss in China by implementing local input throughout all operations and fast response mechanisms for detecting emerging problems.

Gucci needs to stay in front of regulatory changes through active compliance work and government relations: The Chinese regulatory environment undergoes sudden changes because of government-led initiatives and international tensions so Gucci needs to maintain forward thinking. The company should allocate funds to develop strict compliance systems and work with local legal experts who will help the company understand the changing regulations about data protection and advertising and e-commerce and consumer rights. The company should build positive relationships with Chinese state entities through their participation in government-backed philanthropic projects and development schemes to prove their support for Beijing's social objectives. The company's engagement with authorities enables them to receive early alerts about upcoming policy changes while creating positive relationships. The "common prosperity" initiative and anti-extravagance campaigns launched by China introduced new policies which focus on controlling excessive displays and monitoring celebrity brand endorsements.

The company should modify its marketing approach to match policy directions through the use of less extravagant visuals and content that promotes shared prosperity by emphasizing craftsmanship and cultural heritage and sustainable practices instead of luxurious displays. The brand requires established procedures to enable fast implementation of new rules which might include enhanced cybersecurity measures and marketing restrictions for premium products. The company can handle regulatory unpredictability through enhanced legal monitoring and continuous communication with regulators and its commitment to corporate social responsibility through rural development donations and common-prosperity initiatives. The company will stay safe from unexpected penalties and regulatory challenges by taking a proactive approach to institutional changes in China.

Furthermore, as Professor Morisset also suggested, luxury brands in China must avoid short-term reactions to cyclical downturns and instead demonstrate patience and continuity of investment. As Denis emphasized, sudden cuts in retail presence or brand communication can undermine years of credibility and goodwill, while the long-term fundamentals of the Chinese market remain strong. For Gucci and its peers, this means sustaining investment in physical boutiques and flagship stores even when demand temporarily softens, treating China as a strategic commitment rather than a tactical opportunity. Moreover, physical retail continues to play an irreplaceable role in fashion and hard luxury: boutiques are not just sales outlets but cultural destinations where consumers expect immersive, memorable experiences. Integrating add-ons such as cafés, home collections, or branded hospitality into flagships can reinforce the aura of desirability and transform stores into lifestyle hubs that strengthen brand equity. By combining continuity of presence with experiential innovation, luxury houses can anchor themselves in China's urban landscape and maintain relevance across market cycles.
Finally, a personal recommendation is that If the Guochao movement continues to gain momentum, an optimal long-term strategy for Kering could be to acquire a popular and fast-growing Chinese luxury or premium brand. Crucially, such an acquisition should not aim to "Westernize" the label but to preserve its authentic Chinese identity, creative direction, and cultural codes, while integrating it under Kering's global governance in areas such as financing, operations, and international expansion. This approach would allow the group, and indirectly Gucci, to stay attuned to Chinese tastes and sensitivities, while benefiting from local creative insights that cannot be replicated externally. In doing so, Kering would position itself as not merely adapting to Chinese consumer nationalism, but actively embracing and supporting it, thereby strengthening both resilience and relevance in the world's most dynamic luxury market.

5.8.2. Western Luxury Brands (General)

International luxury brands operating in China experience similar risks that Gucci encounters. The research findings and typical business practices in the industry indicate that luxury companies should create a complete risk management system which addresses China's political environment and consumer behavior.

Every luxury brand operating in China must actively monitor its reputation because it functions as a vital asset that requires ongoing observation. Luxury brands need to establish local teams or implement advanced social listening tools to track Weibo and WeChat and Douyin and Little Red Book and all other Chinese social media platforms for continuous public sentiment analysis. Nationalist passion in China creates an environment where any poorly considered statement or advertisement can develop into a major crisis during brief periods of time. The brand needs to establish early warning systems that detect sudden negative mention increases and maintain a crisis response plan which includes Chinese holding statements and trained spokespeople and media and KOL contact information. The recent years have demonstrated how brand mistakes such as showing Taiwan as independent from China on websites and careless statements from global executives trigger immediate consumer boycotts. A crisis task force located in Shanghai or Beijing must be able to handle issues within the first 24 hours to prevent major problems. The experts recommend that brands should monitor social media activities closely and respond quickly to emerging issues through sincere Chinese social media statements which help prevent complete brand crises. Luxury companies operating in China must maintain extreme alertness because national pride-related controversies spread rapidly across Chinese social media platforms.

Luxury brands operating in China need to develop authentic connections with Chinese cultural narratives to succeed in the market. Luxury brands that understand and adopt the China narrative through genuine methods will avoid political risks and gain Chinese consumer loyalty. Luxury brands should work with local experts to integrate Chinese cultural elements into their branding and product development process. Luxury brands achieve success through their partnerships with Chinese artists and designers who help them create products that appeal to local tastes. The brand demonstrates respect for Chinese heritage through these initiatives which connect with the nationalistic consumer sentiment of Guochao. The Chinese market requires genuine respect because consumers can identify insincere gestures from genuine appreciation. The People's Daily issued a warning to companies which fail to understand China because such unwillingness will result in market loss and all related benefits from Chinese market growth. Foreign luxury brands need to dedicate resources to studying Chinese regional preferences about symbols and colors and holidays and core values before they integrate this knowledge into their marketing stories. The brand should use marketing initiatives to present Chinese family values and contemporary Chinese achievement stories together with its premium brand identity. Luxury brands should support cultural development through sponsorship of art exhibitions and traditional craftsmanship workshops and film productions to prove their enduring dedication to China's cultural advancement. Luxury brands that join China's storytelling initiatives build trust with consumers because they demonstrate their understanding of local cultural values which leads to better brand loyalty and improved political relationships.

The digital platform strategy of luxury brands in China requires both an active approach to digital engagement and strict data protection measures because Chinese consumers are highly digital and local technology companies control most online spaces. Luxury brands should use all applicable digital platforms to establish their presence through WeChat's complete ecosystem and Tmall and JD e-commerce sites and Douyin (TikTok China) and Bilibili content platforms. Companies need to create separate content strategies for each platform because WeChat long-form content requires different approaches than Douyin short videos and Xiaohongshu grassroots reviews. The brand should establish a unified digital presence across all online platforms to maintain continuous visibility and accessibility for Chinese consumers throughout their online activities. The use of digital intermediaries creates business risks because their platform changes and policy updates and algorithm modifications can instantly damage brand reputation. Luxury brands should use multiple platforms for their operations while creating their own digital assets because this strategy protects them from losing consumer access when one platform experiences issues. A strong CRM database built through WeChat and in-store interactions enables VIP clients to receive direct communication from the brand even when social media algorithms reduce brand visibility. The company builds brand independence from major platforms through the development of loyalty programs and exclusive WeChat groups for high-end clients. Luxury companies need to follow strict data privacy and cybersecurity rules because China's Personal Information Protection Law (PIPL) and related regulations impose strict requirements on all digital operations including customer data collection and cloud system management. The implementation of local data officers or consultants together with regular compliance checks and open communication with authorities will help prevent digital regulatory problems. A resilient digital strategy represents the optimal approach because it actively connects with Chinese consumers through all online touchpoints while maintaining stability against platform disruptions and following regulatory standards.

CONCLUSION

This thesis has shed light on the high-stakes environment that Gucci and other luxury brands must navigate in China by using political risk theory, interview insights, and scenario analysis that looks ahead. It finds that the political, regulatory, and reputational risks in this market are not minor issues but major factors that affect how well a business does. Political risk is no longer limited to unstable or remote areas; it now arises from a robust, seemingly stable economy such as China, presenting itself in subtle yet significant manners. The study shows that sudden changes in regulations, changing government priorities, and sudden waves of nationalist public opinion can all quickly change the way luxury businesses work. In short, China's complicated and sometimes unstable market means that luxury brands need to make political risk a central part of their strategy instead of something they think about later.

A key conclusion of the thesis is that political and reputational risks in China are deeply intertwined. For luxury houses, whose business is built on image and goodwill, a minor misstep can rapidly escalate into a full-blown crisis under the glare of Chinese social media and state scrutiny. The research showed how nationalist backlash has become an ever-present hazard: an advertising campaign or corporate comment deemed offensive to Chinese sensibilities can ignite public outrage and official condemnation overnight. Such episodes underscore the reality that reputational threats in China often carry an inherently political dimension. Luxury brands like Gucci are uniquely vulnerable to this dynamic, as their global visibility and cultural cachet make them lightning rods for debates about national pride, cultural respect, and even geopolitics. One interviewee noted that a luxury brand operating in China today must be “as diplomatically adept as it is creatively innovative,” capturing how crucial it is for companies to monitor and manage public sentiment alongside traditional business concerns.

The Gucci case in China is a clear example of these problems and the need for flexible strategies. Gucci's recent experience showed that two things can have a big impact on its success: the brand's own creative direction and the strength of Chinese nationalism. On one hand, Chinese consumers' tastes have changed to favor "quiet luxury" and real local culture. This is part of a larger social trend that values understatement and Guochao (the pride in domestic brands and heritage). Gucci's flashy, logo-heavy style from the late

2010s was very popular around the world, but it became a problem when it didn't fit with the changing tastes in the area. The brand's creative image, which had been an asset, became a risk factor: it didn't fit with China's cultural and political climate, which hurt sales. On the other hand, as nationalism grew, foreign brands had to show that they respected China's values more than ever. This thesis discovered that Gucci's missteps, ranging from perceived cultural insensitivities to a notable decline in engagement with Chinese audiences, were exacerbated by a national discourse that increasingly prioritizes self-reliance and local pride. The outcome was a definitive lesson that prosperity in China's luxury sector depends not solely on traditional market dynamics or innovative design, but also on congruence with the prevailing societal trends of the host nation.

Crucially, the research highlights how Gucci and its peers have responded to these risks and what further steps are necessary. Adaptation and proactive engagement emerged as recurring themes**.** The interviews with industry experts consistently stressed the importance of building strong local partnerships and government relationships as a buffer against regulatory uncertainty. In practice, brands like Gucci are learning to localize their strategies in deeper ways – from appointing Chinese cultural consultants and brand ambassadors, to tailoring marketing messages in line with state initiatives and public sentiment. Gucci's efforts to recover its standing (for example, adjusting its creative approach and rejuvenating its local marketing after noticing a disconnect) illustrate the kind of agile response required. Moreover, the company's risk-mitigation measures, such as closely monitoring policy changes, investing in compliance, and bolstering its crisis management protocols, reflect a broader trend: luxury firms are increasingly integrating political risk management into day-to-day decision-making. This thesis makes clear that a proactive and integrated approach to risk is not just advisable but essential. By anticipating potential flashpoints (whether a mooted regulation on lavish spending or a swell of online nationalism) and by having contingency plans in place, brands can significantly blunt the impact of negative events. Indeed, one of the broader insights of this research is that those firms which internalize political risk awareness – making it as central to their brand strategy as creativity and customer experience – tend to be more resilient and competitive in the Chinese market.

The scenario analysis conducted in this study further reinforced these points by sketching out how different futures might impact luxury brands in China. Across scenarios ranging from relative political calm to heightened tension, one constant was evident: the fortunes of brands like Gucci are highly sensitive to shifts in China's political winds. In a benign scenario, incremental policy changes and moderate nationalism might pose manageable challenges, requiring tweaks to strategy but not threatening the business fundamentally. In more adverse scenarios, however, such as a sharp rise in protectionist regulation or a wave of anti-Western sentiment, even a market leader could see its position destabilized. By envisioning outcomes like these, the thesis underscores the value of preparation and flexibility. For instance, if trade frictions or a nationalist surge were to severely restrict Western luxury brands' access or appeal, companies with robust local networks, a loyal base of Chinese stakeholders, and a well-honed crisis response would stand the best chance of weathering the storm. Ultimately, the scenario planning exercise made tangible the abstract notion of "political risk," reminding us that today's strategic choices can determine how a brand withstands tomorrow's upheavals.

While centered on Gucci, these findings carry wider implications for the luxury industry in China. Every major luxury house – be it Louis Vuitton, Hermès, Prada or newer niche players – faces a similar imperative to balance opportunity with risk in this vast market. China now accounts for an outsized share of global luxury growth, meaning that a serious political or reputational setback in China can ripple through a brand's worldwide performance. Thus, what this study observed in Gucci's case is broadly instructive. It suggests that the era of pure glamour and apolitical branding is over. In its place is a new reality in which understanding government policy, public ideology, and regulatory red lines is just as important as understanding couture trends. Brands that succeed in China tend to be those that listen and adapt: they align their messaging with cultural norms, demonstrate commitment to China's societal goals (such as by supporting sustainability or common prosperity initiatives), and even adjust product lines to reflect local tastes and sensitivities. Conversely, those that remain inflexible or insensitive to the political context risk swift backlash and long-term brand damage. In short, the Chinese market is teaching the global luxury sector that business acumen must go hand in hand with political and cultural astuteness.

In conclusion, this thesis offers a significant insight: the management of political risk has become intrinsically linked to the practice of luxury branding in China. The analysis shows that companies like Gucci can't just do well in China by being creative or good at marketing. They also need to be able to read the country's political signals and social expectations and respond to them over time. This is the new way of doing things that leaders in the luxury industry must accept. The study has demonstrated that when political, regulatory, and reputational risks are regarded as pivotal strategic factors, they can be alleviated and even converted into opportunities—such as enabling a brand to showcase its values and enhance its local significance. The main idea is to be careful and flexible. Luxury brands can protect themselves from crises and build stronger trust and resilience with their stakeholders by learning from China's complicated risk landscape. In the end, the luxury brands that do well in this ever-changing market will be the ones that can balance elegance with caution and stay true to their brand's identity while skillfully navigating Chinese politics and society. In today's world, where one post on social media or policy announcement can ruin years of brand-building, political risk management is no longer a luxury for luxury brands. It is now a must-have and a way to get ahead in China's 21st-century luxury market.

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APPENDIX 1. FIGURES

APPENDIX 2. INTERVIEWS

Professor Denis Morisset

Q1. What factors most shape luxury sales dynamics in China today?

A:First, you need a real long-term strategy with consistent investment in physical retail and communication, China should not be treated as a tactical opportunity, but as a strategic commitment. Second, you must truly understand China's digital ecosystem and empower strong local teams, and then actually listen to them. Many local GMs say European HQs are too slow and conservative, which hurts alignment and speed. Third, reputation risk: it's easy to stumble into "mini-scandals" (e.g., cultural appropriation claims). If you ignore local culture you look disrespectful; if you over-integrate visibly you risk appropriation accusations. Add that many consumers distrust official media and get information peer-to-peer on social/WeChat, which can amplify controversies. Finally, the grey market/daigou, not counterfeiting, but parallel imports that bypass client control and fuel speculative dynamics on iconic items; it's particularly Chinese and less common elsewhere.

Q2. Do cultural sensitivity and local focus help explain why some brands are more profitable than others? Why has Gucci struggled more than peers recently?

A: Gucci is cyclical by DNA, we saw it post-Tom Ford and post-Michele. Under Michele the brand leaned into very young cohorts—smart, but it requires balance. After Covid, China saw lower confidence and more pressure on young people (jobs, income), which hit status-driven consumption. If you try to be everything to everyone, you're more exposed when sentiment turns. Organizationally, I also felt Kering/Gucci's mainland setup wasn't best-in-classcompared to LVMH, and that can weigh on execution pace.

Q3. If you had to suggest three immediate moves to retune a China playbook—for Gucci and in general, what would they be?

A: (1) Patience and continuity of investment, avoid drastic HQ reactions like cutting retail/comms. China remains one of the most promising markets for the next decade.

(2) Double-down on HNWI: they're numerous and, on average, wealthier—this is happening already but should be reinforced. (3) Digital and data with real local empowerment: the ecosystem evolves fast; Chinese players are quicker and more data-driven. Trust local teams and agencies and integrate new tech at speed, otherwise domestic competitors (very visible already in beauty) become a concrete threat.

Q4. Channels and shopping behavior: domestic vs outbound/duty-free; marketplaces vs physical retail, what matters most?

A: For fashion and hard luxury, physical retail remains by far the best channel. Marketplaces (Tmall, JD) are a shop window and traffic engine feeding stores, where brands deliver excellence. Yes, some big-city boutiques look quiet right now—and some networks are over-stored, but offline remains the priority. On duty-free vs domestic, mainland China is replacing Hong Kong as the tax-favoured destination; once allowed, several brands internalized and sell directly. The keyword is experience: Chinese consumers seek travel/experiential luxury, flagships with cafés/food, home lines (e.g., Fendi Casa), and branded hospitality (e.g., hotels) help sustain desirability beyond product.

Q5. Geopolitics: how could EU–China and US–China relations (e.g., a Trump–Xi call, Italy leaving the BRI) affect prices, demand, or luxury dynamics in China?

A: I see limited direct impact: the Chinese government is good at separating geopolitics from business. The main tensions are US–China rather than EU–China, and Italy's positioning shouldn't translate into targeted retaliation against fashion. China thinks long-term, no abrupt "American-style" swings. That said, policy campaigns like the 2013 anti-corruption drive had impact, and there is always some background uncertainty, something can happen at any time, but that's part of doing business there.

Q6. What are the main risks (political, regulatory, reputational) for Gucci, or European luxury more broadly, in China?

A: Political/policy: campaign-driven tightening can resurface (anti-excess, celebrity/advertising crackdowns) and priorities can shift quickly. Regulatory: data/cybersecurity, cross-border data rules, e-commerce regulations, consumer-protection and labelling—so strict compliance and local counsel are vital. Reputational: cultural sensitivity is critical; social media can escalate missteps fast, so disciplined KOL selection, social listening, and rapid crisis playbooks are essential. Market/channel: grey market/daigou and price harmonization—without firm control you dilute equity and anger core clients. Execution: over-expansion in tier-1, HQ–China misalignment, and talent retention. Competitive: domestic players—especially in beauty and increasingly in fashion—are nimble and data-native. FX/macro: RMB volatility complicates pricing architecture. Mitigation is straightforward but hard: strong local governance, empowered decision-making, clean pricing/distribution, robust compliance, and relentless clienteling with top-tier VIPs.

Professor Xu Zhengyuan

Q1. How is the European Union currently perceived in Chinese foreign-policy thinking?

A: The EU is viewed as an important economic partner and a key pole in the multipolar world order. China values continued trade and investment cooperation, but recognises that Europe often faces constraints when seeking true strategic autonomy.

Q2: "In your opinion, what has been the most profound change in Beijing's strategic mindset towards the EU? Is the idea that Europe is a non-autonomous actor aligned with the US becoming more entrenched, or are there still influential alternative views in Chinese diplomatic circles?"

A: It seems to Beijing that EU should be more independent and autonomous strategically. But since it is too biased to China and does not have the will and ability to be independent, China is clear now EU will still try to do everything necessary to please the US. China still try to seek economic cooperation with EU, but does not have expectation of cooperation in the political arena.

Q3. How significant is public opinion in shaping China's diplomacy toward Europe?
A: Public sentiment, especially online, does influence timing and tactics. Authorities monitor social-media trends and consider them when calibrating responses, even though long-term strategy is set by state priorities.

Q4. How do you define nationalism in today's China?
A: Nationalism is broad and layered. It combines civic pride, cultural confidence, and economic sovereignty. Most of the time it is latent, but specific events can activate strong consumer reactions, including short-term boycotts or calls for policy action.

Q5. When nationalism escalates into consumer activism, what is the most effective corporate response?
A: Rapid, sincere engagement is crucial. An immediate and clear apology, coupled with a concrete corrective measure, usually prevents escalation. Delayed or ambiguous responses allow negative sentiment to harden.

Q6. What role can Chinese and European diplomacy play in these episodes?
A: Diplomacy can facilitate de-escalation by keeping communication channels open and framing incidents as misunderstandings, but it cannot replace company action.

Q7. How do nationalism and consumer activism affect Western luxury brands in particular?
A: Luxury brands are highly visible and their creative choices are often symbolic. This visibility makes them more sensitive to nationalist triggers, even when their products remain attractive.

Q9. Looking forward five years, how do you see EU–China relations evolving?
A: Economic pragmatism and strategic competition will coexist. Businesses should prepare for fluctuations and avoid over-reliance on any single political trajectory.

Q10. What practical advice would you give Gucci for operating in China?
A: Treat China as a long-term strategic market, not a short-term opportunity. Maintain continuous investment in retail experience and communication, and adopt pre-clearance of culturally sensitive content to reduce risk.

Professor Liang Xuecun

Q1. From the perspective of Chinese diplomacy, how is the European Union currently perceived?

A: The EU is regarded as an important economic partner and a distinct pole in a multipolar order. Political divergences exist, but there is consistent interest in pragmatic cooperation on trade and investment. Expectations for deep political alignment are limited, yet economic interdependence remains significant.

Q2. Has Beijing's view of the EU's strategic autonomy changed in recent years?
A: The working assumption is that the EU often aligns with the United States on sensitive security and technology issues. That said, there is recognition of European efforts to preserve room for selective autonomy, especially in economic and regulatory matters. In practice, cooperation and friction will continue to co-exist.

Q3. What is the relationship between public opinion and foreign policy in China today, especially regarding Europe?

A: Public opinion, amplified by digital platforms, is monitored and factored into tactical choices. It does not determine policy on its own, but it can shape timing, tone, and messaging, particularly during incidents that attract strong online attention.

Q4. How should "nationalism" be understood for market and brand analysis?
A: Treat nationalism as a spectrum, civic, cultural, and economic. Most of the time it remains a background sentiment; however, it can intensify quickly around specific triggers (diplomatic frictions, perceived cultural disrespect), at which point it may

translate into consumer activism: online call-outs, boycotts of varying duration, or pressure on commercial partners and platforms.

Q5. When consumer nationalism escalates against a Western brand, what response is most effective?
A: Act fast. The combination of (i) a clear explanation, (ii) a sincere and immediate apology where appropriate, and (iii) a visible corrective step is far more effective than delay or defensiveness. Quick action helps prevent online mobilization from hardening into longer-term reputational damage or regulatory complications.

Q6. Why are luxury maisons particularly exposed to nationalist waves?
A: Luxury brands are high-visibility cultural storytellers. Their creative choices, imagery, language, symbolic references, are scrutinized intensely. In calm periods, missteps may be forgiven; under heightened nationalism, the threshold for offense drops, and even minor cues can catalyze criticism.

Q7. How does Artistic Direction interact with nationalism to raise or reduce risk for a brand like Gucci?

A: Artistic Direction can amplify or dampen nationalist sensitivities. Authentic engagement—modern design that speaks to Chinese aesthetics, collaborations with respected local artists, and careful language, reduces error risk. Conversely, stereotyped or "Orientalist" motifs can trigger rapid backlash, especially when nationalist sentiment is elevated.

Q8. What practical governance would you make non-negotiable for Gucci in China?
A: Three pillars:

1. A social-listening early-warning system (Weibo, Douyin, RED) with predefined thresholds to pause or adapt assets;
2. A local cultural review board (academics/creatives) to pre-clear sensitive campaigns;

3. A crisis playbook with an apology protocol, corrective actions (e.g., edit/withdraw creative), and follow-up engagement that rebuilds goodwill (cultural programs or credible CSR).

Q9. In such incidents, what role can diplomacy, Chinese and European, play?

A: Diplomacy can lower the temperature by keeping channels open, contextualizing the event, and encouraging proportionate responses. But governments cannot command public sentiment. Corporate actions—swift clarification, apology, correction—remain decisive.

Q10. Does a deterioration in EU–China political relations directly drive the EUR/CNY exchange rate?

A: Not directly. The exchange rate is driven primarily by macro fundamentals and monetary policy. Political episodes can influence expectations and risk premia at the margin, but the link is indirect and typically short-lived unless tensions become systemic.

Q11. Looking ahead five years, which dynamic will matter more for EU–China ties: economic pragmatism or security-driven rivalry?

A: Both will persist. Economic pragmatism will continue because interdependence is real; however, phases dominated by security logics will recur. Firms should plan for variance, assume oscillations in sentiment and prepare operationally.

APPENDIX 3. ABBREVIATIONS

BRI – Belt and Road Initiative

CRM – Customer Relationship Management

CSR – Corporate Social Responsibility

EVs – Electric Vehicles

FY – Fiscal Year

Gen Z – Generation Z

GDP – Gross Domestic Product

HK – Hong Kong

HNWI/HNWIs – High-net-worth individual(s)

JD – Jingdong

KOL/KOLs – Key Opinion Leader(s)

LVMH – Louis Vuitton Moët Hennessy

MNC/MNCs – Multinational corporation(s)

NMPA – National Medical Products Administration

OECD – Organization for Economic Co-operation and Development.

PIPL – Personal Information Protection Law

ROPO – Research Online, Purchase Offline

USTR – United States Trade Representative

VIC/VICs – Very Important Client(s)

VIP – Very Important Person

WGI – Worldwide Governance Indicators del World Bank

YoY – Year over year

Q1/Q2/Q3/Q4 – Quarter 1, Quarter 2, Quarter 3, Quarter 4

H1/H2 – First Half / Second Half, primo semestre e secondo semestre dell'anno.