The Splendor of Moscow and Shanghai: A Comparative Study of Russia's and China's Luxury Markets, Middle Classes and Consumer Behavior

"Luxury is the necessity that begins where necessity ends."—Coco Chanel.

"Conspicuous consumption of valuable goods is a means of reputability to the gentleman of leisure."—Thorstein Veblen.

Sophia Wang

Abstract: In recent years, China's and Russia's middle classes have been mushrooming in size and appetite for fine goods, feeding the global luxury industry. While sharing many similarities, such as a common authoritarian, communist heritage, China's and Russia's consumers are marked by differences, social, cultural and economic. This research endeavor will flesh out these differences and similarities in a multicultural, multifaceted and necessarily multidisciplinary fashion. This paper will explore the capabilities and preferences of Russia's and China's rising middle classes, as well as variables affecting consumer behavior, in a comparative study. Given the breadth of the subject matter, this research paper draws from a variety of sources in political and economic history, economic theory, macroeconomic evidence, cultural, psychological and sociological concepts, and news media.

Introduction

In March of 2012, French luxury watchmaker and jeweler Cartier released a sumptuous short film featuring a bejeweled leopard's odyssey through fantastic, dream-like versions of Russia, China and India. Of the BRICS countries, Russia and China are the jewels in the crown, the most promising and the most sought-after markets in the eyes of European luxury giants such as Cartier, Christian Dior, Gucci, Hermès, Louis Vuitton and Prada. Though they are but small segments of the population, China's and Russia's superrich alone spend a great deal on modern houses, fast cars, sleek watches and designer clothing. In 2013, Moscow topped *Forbes'* annual list of world cities for billionaires yet again, outstripping New York, Hong Kong, London and myriad others; as of 2013, 84 billionaires call Moscow home, with a combined total net worth of over $366 billion (Geromel 2013).[1] China harbors over a million millionaires, as reported by 24/7 Wall Street (Hess 2013);[2] and in 2014, a record 152 Chinese citizens made *Forbes'* Billionaire List, seconding only the United States (Flannery 2014).

This does not, however, touch upon the fascinating topic of Russia's and China's emerging middle classes, who are armed with huge appetites and capabilities, and are being increasingly targeted by global luxury brands. Logically, Russia remains an attractive, high-octane market for Western luxury companies that seek to anchor their presence in emerging markets. It is closer geographically and culturally to Europe, as well as more mature than its BRICS counterparts. Russia is, however, oft overshadowed by China, which is now the world's fifth largest luxury market according to Euromonitor (Deloitte 2014). China is predicted to become the world's biggest luxury consumer by 2020, accounting for $245 billion, or a staggering 40 percent, of a $610 billion personal luxury market, beating Japan and the United States on this

[1] The list continues with global cities Istanbul, São Paulo, Mumbai, Seoul, Beijing, Dallas and Paris.
[2] According to Hess' report, there are 1.11 million millionaire households in China.

front (as cited in Silverstein et al 2012, pp. 159). Interestingly, both Russia and China export tourists *en masse* to chic fashion capitals such as Paris, Milan and London, where they help considerably in boosting otherwise stagnant luxury sales.

Despite the considerable wealth and influence of Russia's and China's élites, it is the middle class of each country whose spending activity is of greatest interest in this research paper. There is indeed a growing middle class in both Russia and China, with greater consumption capabilities, bigger appetites for fine goods and increasingly sophisticated preferences. Both countries offer markets with immense potential, but are necessarily marked by differences —cultural, social and economic.

Conspicuous Consumption and Luxury Goods

It behooves to begin with a discussion of theory and key definitions that will serve as a framework for the rest of this article. In *The Theory of the Leisure Class*, American economist and sociologist Thorstein Veblen introduces the concept of conspicuous consumption, which refers to the practice of spending money on expensive, unnecessary items to enhance one's social prestige and impress others with one's wealth, whether real or perceived. Veblen wrote this seminal treatise from the turn of the century, describing, in oft-satirical terms, the behavior of the *nouveau riche* American middle class who became wealthy off of the massive accumulation of capital during the Second Industrial Revolution (1860-1914). However, this is also a phenomenon that pertains to contemporary China's and Russia's nascent, newly moneyed middle classes, who demonstrate many of the ideas that Veblen highlighted in 1899.[3]

For Veblen, the consumption of goods is evidence of "pecuniary strength" that dates to an earlier, more primitive stage in mankind's economic evolution (Veblen 1899). Veblen traces this course from

[3] Thus, in a Braudelian sense, one may say that *plus ça change, plus c'est la même chose*.

a "predatory" phase to a "peaceable" stage, at which the "man of leisure" need no longer consume "of the staff of life beyond the minimum required for subsistence and physical efficiency" (Veblen 1899). Veblen makes the point that the very idea of ownership did not develop as a basic need for survival or utility. Rather, it began and grew into a "human institution on grounds unrelated to the subsistence minimum" (Veblen 1899). In modern days, as Veblen writes, "conspicuous consumption of valuable goods is a means of reputability to the gentleman of leisure" (Veblen 1899). Expensive items per se do not provide utility, but owning them helps one look good in society. The leisure class engages in acts of conspicuous consumption, spending more money on goods than they are worth, to impress others in society and display social power and prestige, whether it be real or imaginary.

Veblen's major contribution to economic and sociological thought is the idea that humans have never been rational creatures seeking to maximize utility, but that they have always emulated the consumption patterns of individuals situated at higher points in the social hierarchy. Indeed, Veblen writes that

> The leisure class stands at the head of the social structure in point of reputability; and its manner of life and its standards of worth therefore afford the norm of reputability for the community. The observance of these standards, in some degree of approximation, becomes incumbent upon all classes lower in the scale … The members of each stratum accept as their ideal of decency the scheme of life in vogue in the next higher stratum, and bend their energies to live up to that ideal. On pain of forfeiting their good name and their self-respect in case of failure, they must conform to the accepted code, at least in appearance (Veblen 1899).

In short, consumption patterns trickle down from the top of the social hierarchy. The newly moneyed middle class, now armed with ample discretionary income, can afford to imitate the leisure class or traditional élite in lifestyle.

In Veblen's time, valuable goods consumed by the "gentleman of leisure" consisted of "the various forms of domestic music and other household art … the latest properties of dress, furniture and equipage … games, sports and fancy-bred animals, such as dogs and race-horses" (Veblen 1899). A luxury good or superior good is defined as a good for which demand increases more than proportionally as income rises. For a necessity good or normal good, on the other hand, demand increases proportionally less than income. Luxury goods are said to have high income elasticity of demand: as people become wealthier, they tend to buy more and more of the luxury good. Interestingly enough, some luxury goods are said to have a positive price elasticity of demand; known as *Veblen goods* after Veblen himself, they can project greater value if more expensive, and drive sales up, rather than down. Perfume and jewelry are prime examples of such goods.

Such aberrant market behavior, when consumers purchase higher-priced goods in lieu of comparable low-priced goods, is known as the "Veblen effect." In a study of China's élite class, Xiao Lu points out that the wealthy, in fact, *prefer* to pay high prices, for doing so advertises the ability to afford such expensive items as a white-gold and sapphire necklace by Van Cleef & Arpels that fetches a price of $26,400, while simultaneously excluding those who cannot.[4] Recently, though, the luxury goods sector has faced the limits of the power of prestige pricing, hurt by weak foreign currencies. LVMH has, in fact, increased prices to make up for a yawning difference between the euro and other currencies; according to the group's financial director, Guiony, Louis Vuitton's prices leapt about 8% in China and Japan (Passariello 2014). Consumer demand for LVMH goods, however, has been weak, and the company experienced a decline in Chinese spending in the second quarter (Passariello 2014).

[4] For an excellent and insightful analysis of the role of China's élite in the luxury market, see Xiao Lu, P. (2008). *Elite China: Luxury Consumer Behavior in China. Singapore: John Wiley & Sons.*

Political and Macroeconomic Changes

Now that the basic theoretical context for this research paper has been established, it is appropriate to move to the historical and macroeconomic variables that affect contemporary Russia's and China's middle-class luxury consumption. Russia was a communist state from 1917 to 1991 that operated under a command and control economy, with three major committees, CMEA, Gosplan and Gossnab, planning and steering the USSR's economic course. Until 1991, all economic activity was guided by a series of yearly and five-year plans as a means of boosting productivity and maintaining a steady material supply. Initially, the planned economy scheme reaped numerous benefits, including a demographic increase, capital accumulation, rapid industrialization and urbanization, and flourishing heavy and military industries (Sergi 2014). The Soviet star burned especially bright on October 4, 1957, with the launching of Sputnik that earned the USSR a major victory in the international space race.

At the same time, domestically, the USSR lagged behind in terms of the output of consumer durable goods, mostly because it was not a state priority (Manove 1971, pp. 390-406). The Russian state focused its energies on the development of heavy and military industry, at the expense of addressing demand for final goods used for consumption. Despite the quality and quantity of Soviet raw materials, intermediate goods were of poor quality; consumer goods were substandard (Sergi 2014). The economy was marked by three lines of production, in which top-quality goods were directed to foreign markets and the *nomenklatura*, goods of middling quality were designed for domestic markets, and goods of the lowest caliber allocated to CMEA countries (Sergi 2014). In short, the state neglected to address demand for most consumer durable goods.

Soviet-type economic planning was, thus, unable to predict or even address demand. Through subsidization and the centrally planned market structure, prices and availability of goods became severely distorted; the pricing structure under the centrally planned economy was virtually unresponsive to consumer demand, which resulted in excess demand and chronic shortages of most consumer durable goods (Zelinski 2010, pp. 2). With the fall of the Soviet Union in 1991, Russia adopted capitalism and began its inexorable and rapid turnover towards a market economy.

The birth pangs of transitioning from a restricted command economy to a free-market economy included extreme wealth polarization, poverty and income inequality. For the majority of the Russian people, income dropped drastically between 1990 and 1998. Rapid privatization reforms such as the voucher program and loans-for-shares scheme, however, gave a handful of privileged, politically connected Russians the ripe occasion to grasp riches and authority in the pursuit of profit—known as the "original" oligarchs, or Russia's "Manhattan Boys," as coined by Sergi, for, respectively, their wealth and their youth (Sergi 2009). Amid widespread poverty, those few who accrued vast fortunes overnight were dubbed the "New Russians." Not having previously been exposed to international markets, these individuals had a limited understanding and knowledge of luxury, but could afford to spend on such goods to demonstrate their status, following a conspicuous consumption pattern; brand logo and price became the key drivers of luxury consumption (Kulikova and Godart 2014, pp. 52). These individuals are described as "fabulously wealthy," "uncultured," "untutored" and "greedy for nouveau-riche luxe" (Platonova 2011). In the wake of the Soviet Communist régime that limited self-expression and luxury consumption, there followed an exuberant explosion of shopping and adopting previously unattainable lifestyles.

Given the history of shortage and consumer constraint, one might expect middle-class consumers to respond to the drop in Russia's GDP per capita by cutting back on non-necessity expenditures; on the other hand, consumers may feel the need to emulate the New Russians, a need which would cause them to allocate more income towards visible luxury goods and away from necessities (Zelinski 2010, pp. 4).

According to a Nielsen report conducted in March of 2013, Russia's middle class, which stands at 104 million strong, is the primary engine for Russia's stable GDP growth (Nielsen 2013). This, along with declining inflation and a record-low unemployment rate, point to positive consumer purchasing power in the country (Nielsen 2013). The Russian middle class is projected to increase 16 percent between now and 2020, at which point it will represent 86 percent of the population and amount to $1.3 trillion in spending—up 40 percent from 2010, based on a global study of the emerging middle class and related databases by Dr. Homi Kharas of the Brookings Institution (Nielsen 2013).

However, a Deloitte piece on luxury markets in emerging powers reports less optimistic prospects for high-end Russian consumer spending, painting a grimmer picture of the macroeconomic situation. Oil prices remain high, but are no longer strictly correlated with economic growth, which has slowed in the last two years. The population is declining, thus creating a labor shortage which has resulted in higher wages and low unemployment, and the central bank has focused on restraining inflation rather than easing monetary policy (Deloitte 2014). Moreover, recent geopolitical events, such as the Russian annexation of Crimea, resulting economic sanctions imposed left and right by the EU and the United States and plummeting oil prices, triggered a drop in the value of the ruble, which contributed to a rise in inflation. Household consumption remains low at 49% of GDP compared with other countries, and has fallen from 54 percent since 1996-1997, based on data from the Bank of Russia and Cambridge Group analysis (Nielsen 2013).

China, too, underwent a communist, command and control economy "experiment" inspired by the Soviet model that severely restricted average citizens socially, culturally and economically. One feature that sets China apart from Russia is the relative success of China's transition from a command and control economy to a free-market economy. This can be partially explained by top leadership's decision to take a path of measured gradualism as opposed to shock therapy, in addition to the political stability stemming from a monolithic CCP that has endured to this day. In China, as scholars Sergi and Stiglitz state, systemic reforms and economic development were introduced into the country at the same time, whereas in the former Soviet bloc, only economic reforms were enacted without the proper institutional changes (Sergi 2014). Deng Xiaoping's open door reforms brought a country that was suffering social unrest and economic collapse from rags to riches; from an agricultural society to a modern, industrialized, manufacturing-, consumption- and investment-led powerhouse; from the isolation of a contained and marginalized communist vacuum to the center of world trade and politics. Slowly but surely paring away at Mao's legacy of communes, strict central planning and economic autarky, Deng instituted and implemented the household responsibility system, fiscal decentralization and the opening of special economic zones to foreign direct investment and foreign technology.

Today, China is an export-based powerhouse, riding on the wave of cost-effective labor and inexpensive exports stemming from a trade surplus. As many experts have pointed out, China cannot continue to depend solely on exporting cheap products. Insofar as the country gravitates towards higher wages—thereby increasing the size of the middle class and keeping domestic consumers satisfied—it will lose its competitive edge in terms of cheap-labor cost and production of cheap goods abroad. Indeed, China is already surpassed by countries such as Vietnam and the Philippines on this front (Sergi 2014). Many experts prescribe for China a shift from export-based growth to consumer-led growth. It would be a longer-term solution for China's economy: gravitating away from overinvestment and recalibrating aggregate demand toward consumption spending, as had been the case in the 1980s.

However, Chinese households are notorious for saving. How does one reconcile this with the need for more consumer-based growth? In *The Rise of the Chinese Consumer*, Garner points out two key trends, one, the growth of consumerism among the young generation, who "not only have the propensity to buy status goods, but also the means," as their incomes are higher than those of the previous generation, and two, the increase in income and wealth inequality (Garner 2005, pp. 214). Writing from 2005, Garner was optimistic that local consumption would continue to hold up well for the following other reasons: that Chinese consumers have relatively low leverage, particularly in the way of accumulated mortgage debt and consumer credit; that urban wage growth, where 80% of total national spending is generated, is more correlated to service and export sectors rather than investment spending; that household formation is still strong and the younger generation is happier to spend on borrowed finances and banks happy to lend money (Garner 2005, pp. 58-9).

In China, the growing number of middle-class and affluent city dwellers will drive a steep increase in luxury sales for companies in the universe of LVHM, Richemont, Swatch, Gucci, Hermès, Bulgari and Burberry. A senior executive for Chanel said that "just 1 percent of consumers are millionaires, and they take 20 percent of our sales. But the middle classes are the key drivers for the future" (Silverstein et al 2012, pp. 159).

Demographics and Geography

Geographically speaking, the Russian luxury market is highly concentrated in the two key cities of Moscow and Petersburg. Together they represent 80-85 percent of the market; Moscow consists of 60-70 percent and Petersburg 10-15 percent of the marketplace (Kulikova and Godart 2014, pp. 50). Yekaterinburg is usually seen as the third major city, but in general it has less potential than Moscow and Petersburg. Nielsen reports that the south, Volga and Ural districts have an almost equal share of income as central and northwest districts and are growing at a faster rate (Nielsen 2013).

> Kulikova and Godart describe the typical Russian luxury consumer as being
>
> … between 30-50 years of age. He or she might either have rich parents who gained their fortunes from Russian natural resources, or be young professionals working for Russian or international companies who pay low-income tax, earn higher salaries and spend less on apartment rental … With an average salary of 25,000 to 40,000, these young professionals in their 20s and 30s can afford to buy prestigious brands. They purchase luxury brands occasionally, and since this group of people is extremely mobile, very often they buy luxury goods abroad, where the prices are much lower (Kulikova and Godart 2014, pp. 53).

In contrast, a salient feature of China's market is that, in addition to the megacities Beijing, Shanghai, Guangzhou and Shenzhen, lower-tier cities constitute major sites for luxury consumption. According to a KPMG study, examples of second-tier cities include Dalian, Chengdu, Chongqing, Qingdao, Shenyang and Tianjin (KPMG 2007). In Shanghai, generally speaking, consumption patterns are diversifying further; competitive consumption and conformity consumption, the need to "keep up," have been decreasing. Rather, it is "rational consumption," "autonomous consumption" and "individualized consumption" that are on the rise, so much so that consumers try to express their unique style and establish their individuality through their clothing, outward appearance, fashion accessories and home decoration (HKTDC Research 2009, pp. 8).

According to the China Business Report issued by the American Chamber of Commerce in 2008, Chengdu, capital of Sichuan province, ranks among second- and third-tier Chinese cities as a top investment destination for U.S. multinationals (HKTDC Research 2009, pp. 152). Chengdu is a city with great potential, and full of interesting trends, such as the emerging dominance of women's consumption in the luxury sphere. In Chengdu's retail scene, there is the expression that "women hold up half of the sky"—clearly, the spending power of female consumers in Chengdu is something to be reckoned with (HKTDC Research 2009, pp. 158). The buying clout of Chengdu's female consumers is not only evidenced by top sales performance of women's clothing labels, but also by brisk sales of the cosmetic sections of major department stores; their sales performance is so outstanding that, close on the heels of Beijing and Shanghai, Chengdu has become a top priority in the strategic marketing deployment of international cosmetic brand names in China (HKTDC Research 2009, pp. 158).

Far from being unique to Chengdu, though, this trend is reflective of China at large. More and more Chinese women are prepared to spend money on luxury products—and not only cosmetics, fashion accessories and jewelry. Traditionally, thanks to greater purchasing power and business gift-giving, men have dominated the luxury scene in China, accounting for more than two-thirds of the market (Silverstein et al 2012, pp. 159). In 1995, men accounted for 90 percent of China's high-end purchases, according to a report by Bain & Company, whereas now, women make up about half of total sales; it is to be noted that this still trails the global average in mature markets, where female consumers tend to account for about two-thirds (Businessweek 2014). It is clear, however, that times are changing in China. For example, Maserati, the Italian sports car brand owned by Fiat, reports that 30 percent of its buyers in China are women, compared with the 2 to 5 percent typical in the United States and Europe" (Silverstein et al 2012, pp. 159).

Social and Cultural Structures: A Blend of Traditional and Modern

In addition to the macroeconomic and demographic variables highlighted above, one of the most interesting trends observed in China's luxury market is the broader cultural sea-change sweeping the nation's coasts and inland provinces: a transition from a saving culture to a spending culture of conspicuous consumption. However, the influence of traditional values and mores on modern consumer behavior is considerable. Xiao Lu astutely points out that conspicuous consumption is not the only form of display behavior among the leisure class in China (Xiao Lu 2008, pp. 6). Chinese society is, in many ways, Janus-faced: the one face looking towards the future, and the other richly steeped in its Confucian past, propped up by the eight virtues or moral pillars of society: faithfulness, filial piety, benevolence, love, courtesy, loyalty, frugality and humility. In China's traditional Confucian aspect, collectivism, modesty and family play an important role. There is seemingly no place for conspicuous consumption here. The Chinese word for luxury, 奢侈, *she chi*, consists of two characters 奢 meaning extravagant and 侈 meaning wasteful, carrying negative connotations and contrasting starkly with the Confucian emphasis on frugality.

However, one can observe a clear transition from a conservative saving culture to a spending culture of conspicuous consumption, status symbols and corporate gifting. This shift can be explained by, as Lazaridi points out, the "desire to break with the severely restricted social and economic past, which informs spending behavior" (Lazaridi 2014). This desire to stand out from the crowd, to be seen as different, is part of a broader reaction to the era of "colorless collectivism" in the years following the 1949 Communist Revolution (Silverstein et al 2012, pp. 165).

Similarly to Soviet Russia, during this period in China's history, clothing was uniform and unisex—the Mao or Lenin suit was favored by men and women both—and such "decadent" trappings of capitalism as cosmetics, fashion and jewelry all but disappeared from view. Today, many in China aspire to wealth and the trappings thereof. Deng Xiaoping's statement that "to be wealthy is a glorious thing" features prominently in China's new ideology (Xiao Lu 2008, pp. 58). Indeed, Chinese consumers are constantly on the hunt for "badges of success, moments of celebration and joyful expressions of achievement" (Silverstein et al 2012, pp. 158). In this heady mix, however, remains the primordial ingredient of traditional Chinese culture: 面子, *mianzi*, or face, or good reputation. Saving or maintaining face is an important cultural phenomenon within Chinese society that is centered on "gaining and maintaining the respect of others," and has a crucial influence on consumer behavior (Xiao Lu 2008, pp. 51-2).

Indeed, as Schütte writes,

> the effect of face on buying decisions is substantial and visible in the obsession with high status brand names, in restaurant usage patterns and in clothing. Many Chinese intensively arrange their settings for interacting with others and deliberately style their appearance and manners to flaunt the symbols of power that signal wealth, knowledge, social status, beauty and so forth" (Schütte 1995, pp. 18).

One key characteristic of Chinese consumers in relation to *mianzi* is brand and image consciousness; Chinese are perhaps even more conscious than Americans and Europeans on this matter. Extravagant gestures abound in such a culture. A private banker retells a story of a client, who once finished two cases of vintage Château Lafite Rothschild, one of the world's most expensive wines selling for more than $2500, in traditional bottoms-up style (Silverstein et al 2012, pp. 165).[5] Consumers from a Confucian culture have a strong tendency to purchase a product whose price, brand and packaging match their social position and reputation in order not to lose face (Schütte 1995, pp. 18).

Bearing this in mind, how does one reconcile the traditional saving culture of simple living with the new culture of conspicuous consumption—as well as national economic policies of increasing domestic demand and stimulating consumption? According to Garner:

> The savings rate is likely to increase further as household incomes increase and rural-urban migration takes place.

[5] For more anecdotes illustrating this phenomenon, see Silverstein et al. 165.

> However, owing to the projected overall growth rate of the economy, consumption expenditure still rises. There are also major changes underway within the consumption basket as consumers become open to new tastes and experiences for the first time (Garner 2005, pp. 61-2).

Research suggests that while the emerging middle class will continue to save heavily, they will also spend increasing amounts of money (China Daily 2005). This is consistent with trends that indicate that China's younger generation of teenagers and twenty-somethings show less of the caution of their parents and grandparents, and more inclination to spend than save (KPMG 2007, pp. 14). It is also striking to note that China is witnessing a surge in the number of credit card users as they embrace the "now impulse" more familiar among customers in the United States and Europe (Silverstein et al 2012, pp. 159). In 2005, fewer than 50 million credit cards were issued, whereas by 2010, the number had risen to 221 million. By 2020, the major credit card companies are aiming for triple the number of cards, as well as increased usage (Silverstein et al 2012, pp. 159).

Garner confirms the importance of the group and the role of consensus in shaping attitudes, which is often contrasted with the "individualistic ethos" and aspiration to uniqueness of the U.S. consumer (Garner 2005, pp. 83). In contrast, Asian cultures tend to value collectivism and conformity to the group. According to Mo and Roux, where the French are attracted by "conspicuousness," the British are more sensitive to "luxury atmospherics" and the Russians might pay more attention to "uniqueness," Confucian eastern consumers are more likely to be influenced by external opinions and social norms (Mo and Roux 2013, pp. 5).

Interestingly, Russian consumers tend to value saving less than Chinese. Evelina Khromchenko, former editor-in-chief of the Russian edition of *L'Officiel*, says "You have to realize that the idea of 'saving for a rainy day' is frowned upon here. Russians believe that if you keep money for a rainy day, you'll catch the rain. Instead, they think you should go out and buy a pair of Manolo Blahniks" (FitzGerald 2005). Indeed, as Kulikova and Godart also confirm, Russians tend to be less focused on the future and prefer to spend money today, rather than to save and invest (Kulikova and Godart 2014, pp. 53). This is partially explained by the history of revolutions and cultural sea-changes in Russia that inspired the mentality of "living for today, rather than delaying gratification for an unknown tomorrow" (Kulikova and Godart 2014, pp. 53).

The Spread of Luxury Model

Chadha and Husband have developed an interesting spread of luxury model that generalizes the evolution of the luxury market in Asian cultures, dividing it into five stages (Chadha and Husband 2007, pp. 43):

Stage 1: Subjugation	**Stage 2: Start of Money**	**Stage 3: Show off**	**Stage 4: Fit in**	**Stage 5: Way of life**
Authoritarian rule	Economic growth	Acquire symbols of wealth	Large-scale adoption of luxe	Locked into luxe habit
Poverty and deprivation	Masses buy white goods	Display economic status	Fueled by need to conform	Confident, discerning buyers
	Elites start buying luxe			

While this model is focused on Asian markets, it is also applicable to the Russian luxury market. Both China and Russia underwent periods of authoritarian, autarkic subjugation, and then, when the country's doors were opened to the rest of the world, embraced the flood of goods, both necessity and luxury. Being the maturer market, Russia would be at a later stage, perhaps between stages 4 and 5, whereas China is still at stage 4: luxury is largely accepted in society, and it is conformity to this norm that drives the middle class to buy luxury goods.

Spending preferences and price structure

In China, luxury goods are often conflated with foreign goods (Tsai as cited by Mo and Roux 2013, pp. 5). The foreign is seen as exotic and glamorous, and perceived to be of better quality—a concept evident in the Chinese four-character idiom 崇洋媚外 (*chongyangmeiwai*), which roughly translates to "worship all things foreign." Generally, middle-class luxury consumers prefer to spend money on fine wine, artwork, watches, jewelry, perfumes and cosmetics, handbags and purses, designer apparel and footwear. Favored brands include household names such as Armani, Bulgari, Burberry, Cartier, Chanel, Christian Dior, Dunhill, Ermenegildo Zegna, Estée Lauder, Gucci, Hugo Boss, Lancôme, Louis Vuitton, Omega, Prada, Rolex and Tiffany & Co.

In a report done by J.P. Morgan, researchers suggest that the mainland Chinese consumer accounts for a full 22 percent of classically defined luxury goods—9 percent spent locally and 13 percent spent abroad (Silverstein et al 2012, pp. 159). Using a universe of LVMH, Richemont, Swatch, Gucci, Hermès, Bulgari and Burberry, the report notes that Asia-Pacific sales for these companies increased from 10 percent to 36 percent of total sales in the last three years (Silverstein et al 2012, pp. 159). Overall sentiment is bullish, driven by more luxury categories, growth among the mass affluent, greater female consumption and the increasing popularity of purchasing for oneself rather than for others (Silverstein et al 2012, pp. 159).

Interestingly enough, Garner points out that mainland China's contribution to total luxury sales remains limited. In the case of LVMH, for instance, Chinese people are said by the group to account for 10% of global sales, but mainland China represents just one percent of the total (Garner 2005, pp. 218). According to the 2013 China Luxury Goods Market Study from Bain, mainland China's luxury goods market slowed from seven percent growth in 2012 to around two percent in 2013, with similarly slow growth in 2014 (Bain & Company 2013). Chinese shoppers are travelling more and farther to do their luxury shopping, triggering slowdowns in domestic store traffic and openings (Bain & Company 2013).

Thanks to more porous borders, the opportunity to capture demand from the mainland Chinese population is far from limited to the confines of mainland China. Indeed, many Chinese *prefer* to purchase their luxury products abroad; 58 percent of the money Chinese spend on luxury goods and services is spent outside of mainland China, mainly in Hong Kong, Macao and Taiwan, which account for 33 percent of the money Chinese consumers spend on luxury products (Silverstein et al 2012, pp. 167). With the softening of travel regulations, the number of mainland Chinese traveling to Hong Kong, Europe and the United States is set to continue growing substantially in the coming years (Garner 2005, pp. 218). According to *The Economist*, Chinese tourists spend more in total ($129 billion in 2013, followed by Americans at $86 billion) and per tax-free transaction ($1,130 compared with $494 by Russians), and are expected to buy more luxury goods next year while abroad than tourists from all other countries combined (The Economist 2014). More than 80% of Chinese say that shopping is vital to their plans, compared with 56% of Middle Eastern tourists and 48% of Russians (The Economist 2014).

Russian luxury consumers share similarities with their Chinese counterparts, being marked by several differences as well. One salient feature of the Russian luxury market is a predilection for fur, a vestige of the imperial, aristocratic age. According to the chief editor of a trade magazine for fashion professionals,

> In their preferences, Russian people are very close to Italians, mainly because Italian brands first entered the market with French brands lagging behind. At the same time, while creating their wardrobes, most of the buyers need to take into account certain characteristics of the environment, such as climate—we have almost six months of winter. Russians have a traditional appreciation of furs. During the winter,

> you can see most Russian women wearing mink coats, while in other European countries it might be considered unethical behavior since people try to protect animals and reduce the consumption of furs. There is a desire to be noticed. Russian people still have a preference for clothing and accessories that catch your eye and make a person stand out from the crowd (Kulikova and Godart 2014, pp. 60).

Indeed, Russian clients exhibit a "strong desire" to own unique, exceptional and expensive products (Lecamp 2013, pp. 159-60). While in the Middle East, for example, the client might request a plausible discount, in Russia, for several years, it was essentially the most extravagant price that mattered (Lecamp 2013, pp. 160). Russian clients, like Chinese clients, might go for the most expensive item.

This reflex still exists in Russia, but it is gradually disappearing, being replaced by sound product knowledge. Consumers are becoming savvier and more sophisticated; they will try to understand the product and even if they are willing to pay the price, they will compare it on different markets to get the best deal. This is the rationale behind why many Russian buyers do not buy watches in Russia because the taxes are too high. Prices in Russia are on average more than 40 percent higher than prices in Switzerland, which is the reference market (Lecamp 2013, pp. 160).

Chinese consumers, too, are becoming more discriminate in their decisions. D'Arpizio, the main author of the Bain report, says she is astounded by the speed at which Chinese customers, especially those in Beijing and Shanghai, are switching from "omnivorous consumption of status symbols to more discriminating choices" (The Economist 2014). Lazaridi states that recent consumption behavior is "less logo-driven, but still seeks out venerable brand names with a rich heritage but narrower mass appeal, such as watchmakers like Breguet and bespoke tailors on Savile Row" (Lazaridi 2014).

Conclusion

In this comparative study of China's and Russia's luxury markets, we have come to discover that this is a rich and thriving sphere, not only in terms of sheer volume of sales, but also in terms of cultural, economic and social themes. We began by tracing the consumption patterns of Russia's and China's middle classes to Veblen's nineteenth-century *nouveau riche* emulating the fabled leisure class. We moved on to a discussion of each country's recent political and economic history, which shares a common communist, command and control heritage, as well as the present-day macroeconomic situation. Following that, we delved into the cultural background and luxury markets themselves, the types of middle-class consumers and their preferences, which are becomingly increasingly sophisticated. Despite the considerable wealth of China's and Russia's leisure classes, the luxury markets are, indeed, mostly fueled by the growing appetite of a growing and more sophisticated middle class.

Certainly, this research paper merely scratches the surface of a fascinating topic. It is but a broad exploration of two emerging economic giants' luxury markets. In addition to a more detailed look at the embedded themes, such topics as the growing "democratization" of luxury, in terms of accessibility by Internet and e-commerce, as well as the role of the government and institutional regulations on consumer behavior, are fertile ground for future research endeavors.

References

(2005, August 6). "Controversial consumption of luxuries." *China Daily*. Retrieved from http://www.chinadaily.com.cn/english/doc/2005-08/06/content_466763.htm

(2013, March 27). "A rising middle class will fuel growth in Russia." *Nielsen*. Retrieved from http://www.nielsen.com/us/en/insights/news/2013/a-rising-middle-class-will-fuel-growth-in-russia.html.

(2013, June 8). "Luxury goods in China: Beyond bling." *The Economist*. Retrieved from http://www.economist.com/news/business/21579015-life-getting-harder-purveyors-luxury-china-growth-prospects-are-still

(2013, December 16). "Mainland China entering new era of luxury cooldown, finds Bain & Company's 2013 'China luxury goods market study'." *Changing Tastes, Focus on Women and Increased Shopping Tourism Reset Strategies for 2014*. Bain & Company. Retrieved from http://www.bain.com/about/press/press-releases/mainland-china-entering-new-era-of-luxury-cooldown.aspx.

(2014). "Global Powers of Luxury Goods 2014: In the hands of the consumer." *Deloitte Touche Tohmatsu Limited*. Retrieved from http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cb-global-powers-luxury.pdf.

(2014, January 29). "Female Fashion Addicts Change China's $19 Billion Market." *Businessweek*. Retrieved from http://www.businessweek.com/news/2014-01-29/female-fashion-addicts-change-china-s-19-billion-market-retail.

(2014, February 11). "The luxury-goods market: Disillusioned hedonist shoppers." *The Economist*. Retrieved from http://www.economist.com/blogs/schumpeter/2014/02/luxury-goods-market.

(2014, April 19). "Coming to a beach near you: How the growing Chinese middle class is changing the global tourism industry." *The Economist*. Retrieved from http://www.economist.com/news/international/21601028-how-growing-chinese-middle-class-changing-global-tourism-industry-coming.

Barnett, S. (2013, December 2). "China: Fastest-growing consumer market in the world." *iMF Direct*. Retrieved from http://blog-imfdirect.imf.org/2013/12/02/china-fastest-growing-consumer-market-in-the-world/.

Chadha, R. & Husband, P. (2007). *The Cult of the Luxury Brand: Inside Asia's Love Affair with Luxury*. London: Nicholas Brealey International.

Chen, Joanna. (2013). "Luxury Shopping Places in China." In Hoffman, J. and Coste-Manière, I. (Eds). *Global Luxury Trends: Innovative Strategies for Emerging Markets*. (pp. 114-125). New York: Palgrave Macmillan.

Chow, G. (2011). *China as a Leader of the World Economy*. Singapore: World Scientific Publishing Company.

Chow, J. (2012, July 11). "Luxury Ban Imposed on Chinese Bureaucrats." *The Wall Street Journal*. Retrieved from http://online.wsj.com/news/articles/SB10001424052702303740704577520462755862808.

Flannery, R. (2014, March 3). "2014 Forbes Billionaire List: China's Record 152 Members." *Forbes*. Retrieved from http://www.forbes.com/sites/russellflannery/2014/03/03/2014-forbes-billionaires-list-chinas-record-152-members/.

FitzGerald, N. (2005, October 8). "Lenin Wouldn't Like It." *Financial Times*. Retrieved from http://www.ft.com/cms/s/0/09687abe-3797-11da-af40-00000e2511c8.html#axzz37x2xhpST.

Garner, J. (2005). *The Rise of the Chinese Consumer*: *Theory and Evidence*. Chichester, UK: John Wiley & Sons, Ltd.

Geromel, R. (2013, March 14). "Forbes Top 10 Billionaire Cities—Moscow Beats New York Again." *Forbes*. Retrieved from http://www.forbes.com/sites/ricardogeromel/2013/03/14/forbes-top-10-billionaire-cities-moscow-beats-new-york-again/.

Hess, A. (2013, September 17). "24/7 Wall Street: Countries with the most millionaires." *USA Today*. Retrieved from http://www.usatoday.com/story/money/business/2013/09/15/countries-most-billionaires/2811571/. There are 1.11 million millionaire households in China.

HKTDC Research. (2009). *Profiles of Mainland Cities as Key Consumer Markets*. Hong Kong, HK: Hong Kong Trade Development Council.

Kulikova, I., & Godart, F. (2014). "How History, Culture and Demography Drive Luxury Consumption in Russia." In Atwal, L., and Bryson, D. (Eds). *Luxury Brands in Emerging Markets*. London: Palgrave Macmillan.

Lazaridi, N. (2014, July 24). "China's Luxury Market." Lecture conducted from Harvard University, Cambridge, MA.

Lecamp, L. (2013). "Luxury in Russia and in Countries of Eastern Europe." In Hoffman, J. and Coste-Manière, I. (Eds). *Global Luxury Trends: Innovative Strategies for Emerging Markets*. (pp. 155-170). New York: Palgrave Macmillan.

Manove, M. (1971, June). "A Model of Soviet-Type Economic Planning." The American Economic Review, Vol. 61, No. 3, Part 1: American Economic Association. Retrieved from http://sites.bu.edu/manove/files/2013/05/ManoveSoviet-TypePlanningAER19711.pdf.

Mo, T. & Roux, E. (2013). "Exploring Chinese Consumer Values and Attitudes towards Luxury-Brand Consumption." Université Paul Cézanne. Retrieved from http://leg2.u-bourgogne.fr/CERMAB/z-outils/documents/actesJRMB/JRMB14-2009/Mo%20Roux.pdf.

Platonova, N. (2011). "Historical and Cultural Prerequisites for the Emergence of the Concept of 'Glamour' in Russia." Moscow State University. Retrieved from http://cyberleninka.ru/article/n/istoriko-kulturnye-predposylki-poyavleniya-kontsepta-glamur-v-rossii.

Schütte, Hellmut. (February 1995). "Consumer Behavior in Asia." Euro-Asia Center Research Series: No. 33. INSEAD Euro-Asia Center. Retrieved from http://www.insead.edu/facultyresearch/research/details_papers.cfm?id=8596.

Sergi, B. (2009). *Misinterpreting Modern Russia: Western Views of Putin and His Presidency*. New York, NY: The Continuum International Publishing Group Inc.

Sergi, B. (2014, June 23). "The Political Economy of Russia and China." Lecture conducted from Harvard University, Cambridge, MA.

Sergi, B. (2014, June 25). "Gorbachev, Yeltsin and Putin: Retro-Politics and the Roots of the Russian Political Economy Crisis." Lecture conducted from Harvard University, Cambridge, MA.

Sergi, B. (2014, July 16). "Political Economy of China: Post-1978." Lecture conducted from Harvard University, Cambridge, MA.

Silverstein, M., Singhi, A., Liao, C., & Michael, D. (2012). *The $10 Trillion Prize: Captivating the Newly Affluent in China and India*. Boston, MA: Harvard Business Review Press.

Veblen, T. (1899). *Theory of the Leisure Class: An Economic Study in the Evolution of Institutions*. Retrieved from http://www.gutenberg.org/files/833/833-h/833-h.htm.

Xiao Lu, P. (2008). *Elite China: Luxury Consumer Behavior in China*. Singapore: John Wiley & Sons.

Zelinski, C. (2010). "Consumer Behavior in Russia: Do Russian consumers have higher levels of conspicuous consumption than consumers of other nationalities?" College of the Holy Cross. Retrieved from http://academics.holycross.edu/.../Zelinski_all.doc.