

## Research Article

### Research on the Impacts of Expensive Food and Luxury Goods Import Tariff Adjustment on Chinese Economy and Related Measures

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**Abstract:** This study aims to investigate the impacts of expensive food and luxury goods import tariff adjustment on Chinese economy and related measures. Nowadays, Asia especially China has been the world's biggest expensive food and luxury goods market. However, due to relatively higher luxury import tariff in China, most consumers have chosen to purchase expensive food and luxury goods abroad which leads to a large of domestic consumption cash outflow. Therefore, whether to cut the luxury import tariff in China has been an urgent topic in the field. This study reviews the existing research on luxury consumption as well as relative background home and abroad, especially focusing on the situation on Chinese consumers. Then it briefly introduces the current status of Chinese luxury consumption as well as luxury market, illustrating that expensive food and luxury goods consumption import tariff cut has a great contribution to the Chinese economy. Based on the conclusions, the proposing measures will be put forward when cutting luxury import tariff.

**Keywords:** Chinese economy, expensive food and luxury goods, import tariff

## INTRODUCTION

Nowadays, as the increasing expensive food and luxury goods demand of Chinese consumers, luxury has been a popular topic in China. So far, Chinese luxury consumption has been the second largest luxury consumption group in the world, which has much larger than America. It is said by World Luxury Association (WLA) in 2012 that over quarter luxury in the world have been bought by Chinese. Especially, in the influence of financial crisis in the world in 2009, the luxury sales in western markets were declining while the strong luxury consumption ability of Chinese consumers was surprising (Dubois and Paternault, 2005). According to the statistics obtained from WLA, it is predicted that Chinese luxury consumption sales will exceed that in Japan and will be the largest luxury consumption country in the world. Under the strong luxury demand, there are several characteristics in Chinese luxury market:

- Consumers focus on foreign brands
- This kind of luxury consumption is achieved by making a trip abroad
- The great outflow of domestic cash in expensive food and luxury goods consumption

According to the statistics made by Chinese travel academy in 2012, the number of Chinese people who have been traveled abroad has come up to 97,660,000 that is increased by 4% compared to the previous year. It is no doubt that almost all the Chinese consumers will

go shopping when traveling abroad, especially purchasing expensive food and luxury goods has been an essential item for them. What is more, the main purpose of Chinese consumers who decide to go abroad traveling is to purchase expensive food and luxury goods. In brief, this situation is caused by the fact that the relatively higher Chinese expensive food and luxury goods due to higher Chinese tariff. Based on the current expensive food and luxury goods tariff 10-35%, the price of expensive food and luxury goods in Chinese market is much higher than those in foreign countries (Eastman and Stephen, 2007). As a result, the issue on the higher luxury import tariff in China should be paid attention to and relative departments should consider how to adjust the expensive food and luxury goods tariff as well as the related impacts of cutting the tariff.

As for the issue on Chinese luxury import tariff, the existing researches are demonstrated as follows:

Firstly, the expert Francis (2010) pointed out in his article that as the improvement of daily conditions as well as the increase of the whole incomes, there is an increasing trend of Chinese consumers who decide to go traveling abroad and over half of them are interested in purchasing famous expensive food and luxury goods abroad. So far, there are mainly two increased factors in Chinese luxury consumption market possessed huge developmental potentials and the two factors are showed as follows:

- The huge luxury demand of Chinese luxury market

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- The increasing number of Chinese consumers who would like to go traveling abroad

The intension that travelers who go abroad to purchase expensive food and luxury goods are made up of price, imitation, display and outstanding characters. Especially, the factor of price is regarded as the strongest reason for Chinese consumers to go traveling abroad to purchase expensive food and luxury goods.

In addition, it is demonstrated by Jiang that currently Chinese luxury market has almost been dominated by a variety of foreign brands which means the luxury consumption in China is to consume for foreign famous brands. Not only the Chinese brands but also the foreign brands labeled by 'made in China' will be impaired due to the specific Chinese consume beliefs, Chinese consume culture and the successful operation of foreign brands. Further, due to the higher tariff in China, a large number of Chinese would like to purchase expensive food and luxury goods in other places like Hong Kong. In present, there is an increasing demand of imported expensive food and luxury goods in China and the imported luxury consumption could promote the development of Chinese related industries (Jonathan and Franck, 2003). However, the adverse aspects brought by it to the development of Chinese luxury industry should be focused on at the same time. Hence, the issue on whether to carry out broadening the import of foreign expensive food and luxury goods should be taken into account carefully.

Further, it is pointed out by a variety of Chinese experts that the average GDP in China has exceeded \$3000, which shows that the Chinese luxury consumption is in the stage of expanding and promoting. Therefore, it may be a good idea to adjust related policies or cutting the expensive food and luxury goods tariff so as to leave most purchasing ability in Chinese market. Also, the CEO in WTO center believed that the Chinese foreign trade depended on the economic situation of European and America that there will be a series of trade gaps between China and foreign countries when foreign countries have confronted to tough economic situations. In fact, among the Chinese consumption in foreign countries, expensive food and luxury goods consumption has been the relatively large part in them. Correspondingly, it is helpful for Chinese government to cut some expensive food and luxury goods tariff in order to balance the trade and hold the people who would like to expensive food and luxury goods.

In short, these researches involves the characteristic of Chinese luxury consumption as well as the necessity of cutting the expensive food and luxury goods tariff, but they do not analyze the impact of cutting expensive food and luxury goods tariff on Chinese economy and the related measures.

To address the above mentioned issue, this study is to analyze the necessity of cutting the expensive food and luxury goods tariff systematically and other related

issues. The current status of Chinese luxury consumption as well as luxury market are introduced and the analysis results illustrate that expensive food and luxury goods consumption import tariff cut has a great contribution to the Chinese economy.

#### **CURRENT SITUATION OF EXPENSIVE FOOD AND LUXURY GOODS IMPORT TARIFF**

**Basic conceptions of luxury:** According to Bernard (2008), luxury is defined as a kind of luxurious lifestyle wholly or partly considered by the society, which mostly decided by products or services. From the perspective of economy theory, luxury is defined as the commodity that the income flexibility is greater than 1, which means that the demand of this kind of goods will be increased with the increased income and the increase degree of demand is higher than the increase degree of income. In the real world, luxury is considered as slap-up consumption goods that are beyond general enjoyment and it covers from costumes to slap-up cars. However, generally in people's view, luxury is defined as the very expensive goods that most people cannot consume such as famous bag, slap-up costumes and private planes.

Based on the definition of luxury above, several characteristics of luxury are listed as follows:

- **High price:** High price is one of significant characteristics of luxury. In general, luxury is the most expensive among the similar commodity. Although the commodity with higher prices is not always luxury, expensive food and luxury goods are definitely very expensive. Moreover, high price means high slap-up commodity and it is believed by consumers that only higher price could show unique image of luxury.
- **Outstanding character:** Of course the superior art craft, good quality material, classical design and complex processes contribute to the outstanding characters of luxury. It is inferred that expensive food and luxury goods with careful design is labeled with 'standardization' that makes consumers enjoy the visual art.
- **Show off:** It is a wonderful approach for consumers to show off their fortune, status and lifestyle by possessing expensive food and luxury goods equipped with 'symbol value'. In modern times, luxury is one of main approaches for luxury consumers to display their fortune and reputation. There are two reasons for consumers to purchasing expensive food and luxury goods:
  - Consumers would like to display their economic powers by consuming luxury.
  - Consumers consider the additional values of luxury when purchasing expensive food and luxury goods. So display has been an important character for luxury.

- **Rarity and history:** It is commonly known that luxury generally contains some rare resources or superior design. Further, luxury is derived from some social and historical conditions as well as related culture background. For example, Gucci is founded in 1921 in which the logo and figure are standardized to the culture and history of Italy.
- **Dispensable goods:** Actually, the functions provided by expensive food and luxury goods could be substituted by other commodities with relatively cheap prices, but the mental satisfaction brought by luxury is much larger than other commodities regardless of the similar value.

Based on the characters above, it is concluded that different consumers have different preferences on the similar products. Therefore, these characters of luxury have attracted a variety of consumers and they make more consumers to purchase luxury. Especially, as Chinese luxury consumers, due to the over preference on some features of luxury, the consumption situation in Chinese luxury market is relatively hot that is different from that in foreign countries.

Generally, luxury will be transferred to different physical goods when meeting different time, places and people. For example, in 1980s in China, luxury means the watch, the bicycle and then it means telephone, television and bridge. By now, these 'expensive food and luxury goods' has become indispensable goods in people's daily life. As the rapid development of economy and globalization, it is seen that there are more styles of luxury which could classify luxury into traditional luxury and new luxury:

- **Traditional luxury:** Actually, traditional luxury is defined from the narrow perspective and it signifies the supreme rank in consumption structure, which makes consumers obtain great satisfaction physically and psychologically. Moreover, the price of luxury is relatively expensive and hence luxury is generally belonged to a minority of rich consumers.
- **New luxury:** New luxury is defined as the most common expensive food and luxury goods in the current society from the generalized perspective, which indicates this kinds of commodity that provide high quality and satisfaction with higher prices to consumers compared with the similar goods. It is inferred that new luxury is cross between ordinary consumer goods and traditional expensive food and luxury goods. In general, it not only standardizes the popular fashion products but also possesses some individual symbolic characteristics that provide satisfied feelings and premium value for consumers.

**Luxury import tariff:**

**Luxury import tariff by mean of merchandises:** As for merchandises, the tariff imposed in the import

Table 1: The different rates of luxury in China

Name	Rate of tariff (%)	Rate of value-added tax (%)	Rate of consumption rate (%)
Jewelry	35	17	8
Watch	11-23	17	16
Cosmetics	6.5, 10 and 15	17	24
Bags	10 or 20	17	32
Seafood	15	13	20

The customs of the people's republic of china import and export tariff in 2012

link by customs is defined from the generalized perspective. It means that besides tariff, the Chinese customs also impose value added tax and consumption tax in the process of importing. It could be showed in the equation:

$$\text{Import tariff} = \text{Tariff} + \text{value added tax} + \text{consumption tax}$$

According to the customs of the People's Republic of China Import and Export Tariff in 2012, the average tariff based on all the merchandises listed in the regulation is up to 9.8%. Further, from the actual import situation, it is showed that the tariffs of most merchandises are 0 or below 10%. When it concerns value-added tax, the import VAT rates of ordinary enterprises are 17%. As for consumption tax, most import merchandises are not imposed this kind of tax and it only focused on wine, cigarette, makeup, car, watch and so on.

Luxury here generally means seafood such as shark fin and sea slugs, bags, watches, makeup and jewelry, etc. in which the average tariff in China is highly up to 10-35% listed in the Table 1. Besides, the tariff of luxury must take both value added tax and consumption tax into account that burden the total tariff of luxury. As a result, the price of the import luxury will be much higher than the original price of it, which leads to the higher cost that Chinese consumers must pay for one piece of luxury in Chinese markets.

**Luxury import tariff by personal merchandises:** As for personal merchandises, the tariff and value-added tax as well as consumption tax imposed by the custom are regarded as the import tax briefly. Currently, there are four levels of import duty rates in China: 10, 20, 30 and 50%. Specifically, when it comes to luxury, the import duty rate based on luxury watch is 30% while it will be imposed by 50% based on cosmetics. As for imported articles, certain preferential measures on them are ruled by the customs in China. According to the announcement made by General Administration of Customs, it is regulated that there are two situations that the customs shall be free of duty and they are limited to private use and in reasonable quantities:

- The resident passengers entered who bring imported self-use articles abroad that the gross price is within 5000 RMB (contain 5000 RMB).

Table 2: The rates in different level of merchandises

The level of rate	Rate (%)	Names of merchandises
The first level	10	Mainly contains newspapers, magazines, power points, videos, gold, silver, food and drinks etc
The second level	20	Mainly contains textiles and finished goods, cameras, bicycles, watches and so on
The third level	30	Mainly concerns golf and its balls, luxury watches (the price after tax is above 10000 RMB)
The forth level	40	Mainly means cigarette, wine and cosmetics

The customs of the people's republic of china import and export tariff in 2012

- The non-resident passengers entered who bring imported self-use articles abroad that the gross price is within 2000 RMB (contain 2000 RMB).

It means that when Chinese people purchase some luxury within relatively low prices from foreign countries identified by the customs as 'private use and in reasonable quantities, they will be free duty on the luxury. So nowadays it is very popular for Chinese people to purchase certain luxury overseas and then bring them in China so as to save a large of purchase cost finally. Then the rates of import tariff in China are showed in the Table 2.

### CHARACTERISTICS ANALYSIS OF CHINESE LUXURY MARKETS

**The current situation of luxury consumption in China:** Currently, China is regarded as one of the fastest growing countries in economy in the world that its annual economic growth rate from 1990-2012 is up to 9.32%. Of course the rapid development of economy has been regarded a vital condition for the fast growing luxury consumption. According to the perspective of China brand strategy association, the consumption growth of a country's luxury is nearly twice of its economic growth speed and subsequently the Chinese consumption growth is growing relatively fast based on the present Chinese economic growth rate. Further, in the view of China brand strategy association, the original luxury will be switched to necessities and the social consumption structure will be significantly changed when the average GDP of a country is up to \$1000. It is known that the average GDP has exceeded \$1000 early since 2003. Although China is a developing country with lower income, it is still a huge luxury consumption market. According to the research outcome made by China brand strategy association, the growth rate of Chinese luxury consumption in 2012-2015 will be about 10%, especially; the sales of luxury will exceed 115 billion, accounting for 30% of the total global consumption.

**The characteristics of Chinese luxury consumption:** It is commonly known that the mature luxury consumption mainly depends on two basic elements of culture and economy. In some developed countries such as America, luxury consumption has become a habit that consumers could purchase expensive food and luxury goods in different prices freely due to relatively high personal fortune and unique lifestyles, which

signifies a mature luxury market. However, as for Chinese luxury consumers, consumers who possess relatively high fortune try to contact and purchase expensive food and luxury goods only in recent years and hence the luxury consumption is characterized with 'Chinese characteristics' that shows a relatively higher gap compared with developed countries.

**Small age of consumers:** In foreign countries especially in some developed countries, the age of luxury consumers is generally concentrated on 30-40 while the age of Chinese luxury consumers mainly focuses on 20-30. Actually, in China, the trend of young people consumption on luxury is growing and there are two reasons on the situation:

- Although China is a developing country in present, with the rapid development of economy more and more young people who are successful in career and hence have the ability of purchasing expensive luxury have become the essential part in luxury consumption in China
- Moreover, although a variety of young people who have not very strong ability of paying for expensive luxury in China, they have not burdened too much in daily life. In order to satisfy their luxury dreams and vanity, they tend to become the luxury consumer groups

**The staggering growth rate of luxury demand:** According to the statistics made by WLA (World Luxury Association), it is seen that the gross sale of Chinese luxury consumption in 2004 has up to 2 billion, but it has come up to 40 billion that accounts for 27% of the whole world luxury consumption in 2010. So it is predicted by some experts that China will the largest luxury consumption country in the world, exceeding Japan. In present, as the stable development of Chinese economy, the income level of Chinese people are improving step by step, the incomes by month of private entrepreneurs, executives, senior white-collar workers and managers have reached 20000-50000 RMB, becoming standardized luxury consumption groups (Nyeck, 2004).

According to the prediction made by BNP Peregrine Corporation, the percentage of middle class in China accounts for about 13.5% of the total population that means 100000000. Further, many well-known luxury brands such as LV, Gucci regard China as the fastest growing luxury consumption market by

making a series of investigations. It should be paid attention to that the rate of sales of LV in China included Hong Kong have increased to 40%.

**Chinese consumers focus on foreign brands:** Nowadays, consumers on the luxury consumption in China are nearly all concentrate on foreign brands. When it comes to luxury, Chinese people firstly consider LV and Gucci etc. It is surveyed that among the top 50 luxury brand in Chinese consumers' perspectives there are 34 foreign brands that account for 68%. Specifically, there are 14 luxury brands come from America that account for 28% of the whole foreign brands (Sharon, 2002). It is indicated from the survey that in most Chinese consumers, luxury is generally related to developed countries in which famous luxury brands with hundreds of history in western cultural background.

**Consumers achieve it by traveling overseas:** When purchasing luxury, besides a small part of Chinese consumers choose to purchase expensive food and luxury goods in Chinese shop malls or exclusive shops on luxury. Further, most Chinese consumers would like to purchase luxury beyond Chinese mainland due to relatively higher import tariff. In recent years, the scale of Chinese outbound tourism market is expanding continually. It is predicted by World Tourism Organization that China will be the forth tourist county in the world in 2015 that will convey about 100 million people abroad each year. So far, there have been more than 130 countries open to become the destinations of Chinese outbound tourism. Based on the statistics made by China travel institute, the number of Chinese outbound tourism has been up to 4766 since 2009 increased by 4% compared to the previous year. It is apparently indicated that nearly all Chinese consumers tend to purchase luxury by traveling overseas, especially purchasing luxury has been an essential item for them who decide to outbound travel (Kapferer, 2006). What is more, some Chinese consumers decide to travel in Hong Kong, for they would like to purchase expensive food and luxury goods. In fact, the luxury purchased by outbound travelers is mainly bags, jewelry and cosmetics that could be brought conveniently. Although almost 90% of international top luxury brands have entered the Chinese market, a huge large of Chinese consumers will be afraid of the higher prices of international luxury brands in Chinese mainland market (Thomas, 2001). As a result, there is a growing trend that Chinese consumers would like to purchase expensive Food and luxury goods in foreign countries due to the relatively lower prices and even some preferential policies made by Chinese government.

By analysis, one important reason for Chinese people who would like to purchase expensive food and luxury goods abroad is the cheaper price. According to

the theory of consumer surplus, the main purpose of consumers purchasing commodities is to obtain utility. Therefore, when purchasing merchandises, consumers will take both the utility and cost into account, ascertaining the maximum utility made from the cost. Several Chinese departments put forward that it may be a better idea that Chinese government should try to leave luxury consumers in Chinese market by cutting luxury import tariff compared to the current policy with high import tariff constrain consumers.

**The present situation of Chinese luxury market:**

**The huge potential existed in Chinese luxury market:** Regardless of the lower level of average income in China, the luxury consumption in China is growing continually due to the rapid expansion of the middle class. Currently, Chinese luxury consumption market is entering the prosperous stage. There are two reasons mainly:

- There has been a group of wealth consumers who have the ability of consuming expensive food and luxury goods in China and at the same time they pursuit individual consumption.
- A 'demonstration effect' derived from luxury consumption among the first class in China will lead to more people to peruse this kind of consumption model.

In short, it is concluded from the analysis above that there is a huge potential on Chinese luxury consumption in the market, but most luxury consumption for Chinese consumers focus on foreign luxury markets. So the scale of Chinese luxury market may be rapidly developed when Chinese government consider to cut luxury import tariff so as to attract Chinese consumers to purchase luxury in Chinese market instead of foreign markets.

**Unsatisfied situations on imported luxury sales in Chinese market:** At present, a variety of luxury brands abroad are filled in Chinese market. In fact, when consumers refer to luxury they will take many international brands into account immediately. There are mainly two channels that international luxury enters Chinese market: upscale store and exhibition. So far, about 80% international luxury brands have entered Chinese markets, which are mostly located in center business districts.

**Lagged development of native luxury brands in China:** Different from the superior situation of international luxury brands, the native luxury brands in China is relatively lagged behind. It is produced by both external and internal aspects.

When it comes to external aspects, it could be analyzed in the two aspects. On the one hand, the native luxury brands in China are generally shortage of solid

history and cultural background. It is pointed out by some experts that the native luxury brands in China has been in the initiated stage due to history reasons that lead to the difficulty of developing them based on profound historical and cultural background. On the other hand, it is difficult for the native luxury brands in China to be widely accepted by domestic consumers. Nowadays, although Chinese consumers have been aware of luxury brands, most of them would like to advocate international luxury brands due to the good reputation and their high quality.

When it refers to internal aspects, there are three main reasons for the failure. Firstly, most native enterprises in China have not made their own business strategy suitably. It is very important for native luxury enterprises in China to position the products exactly. However, many Chinese luxury firms expend product lines and product operation blindly when building their native brands, leading to a confused product positioning and then related reducing consumers. Additionally, native firms in China generally lack the accumulative processes when managing brands. as it is a long-term process to build a brand within high reputation, native luxury firms hold the view that the luxury brand will be built by naming a special brand and packaging it with high capitals. However, in fact, the foundations of these kinds of luxury brands are weak and so it is difficult for these native luxury brands to long-term exist in Chinese luxury market (David, 2005). Furthermore, there is a shortage of outstanding executives for luxury brands, affecting the effective management of luxury finally.

In summary, it is a vital issue for Chinese luxury industry to built native luxury brands in the following years.

#### **IMPACTS ANALYSIS OF EXPENSIVE FOOD AND LUXURY GOODS IMPORT TARIFF ON CHINESE ECONOMY**

**Beneficial impacts of cutting luxury import tariff on Chinese economy:** There are a series of beneficial impacts of cutting luxury import tariff on Chinese economy and they are showed as follows:

- **Increase the number of imported merchandises and expand domestic consumption:** The most direct impact of cutting luxury import tariff on Chinese economy is to increase the number of imported merchandises and expand domestic consumption on luxury, leading to the growing luxury sales. According to the present proportion of 1:5 based on the amount of Chinese luxury consumption on the market at home and abroad, when cutting luxury import tariff, the expensive food and luxury goods imports will be nearly five times than before and at the same time the national tax will increase substantially as well. Once cutting

luxury import tariff, the sale price of imported luxury brands in Chinese market will be dropped and likewise it is helpful to encourage more international luxury brands to enter Chinese markets, attracting more domestic consumers to purchase expensive food and luxury goods in Chinese markets instead of other foreign markets (Bernard, 2008).

- **Narrow the trade surplus and reduce the trade friction:** In recent years, there is a relatively large trade surplus in China, resulting in some trade frictions with trade partners. For one thing, the exports from China frequently encounter unfriendly even regarded as dumping behaviors. For another thing, Chinese travelers are welcome in most foreign countries, for they are helpful to promote the consumption in a variety of merchandises, increasing the sales of them. Especially after the financial crisis in 2009, it is found that the number of Chinese outbound tourism is sharply increasing. The main activity of Chinese travelers overseas is to consume, especially purchasing expensive food and luxury goods that boost the economic development of foreign countries. Based on the situation, it is inferred that when cutting luxury import tariff in China that imports substantial international luxury brands in Chinese markets demanded by Chinese consumers so as to balance the trade and alleviate related trade frictions as well as leave more domestic luxury consumers purchased in Chinese markets.
- **Drive the surrounding industry and increase employment:** By cutting luxury import tariffs, it not only could bring a large part of the luxury consumption at home but also it could improve the development of surrounding industries such as manufacturing, retail, etc. Specifically, if cutting the luxury import tariffs, China will be a powerful luxury sales country that a large number of international luxury brands will be poured into. Of course, many domestic retailers must participate in the process inevitably, greatly driving the development of domestic retailers. Correspondingly, a large number of sellers on luxury will be demanded that could greatly increase the domestic employment in return. Meanwhile, as the main luxury market transfer to Chinese market, luxury manufacturers will transfer part of the luxury manufacturing to China so as to save costs, for China is regarded as both the product sale and artificial cost areas. In this way it will also promote the development of Chinese product manufacturing as well as increasing the manufacturing personnel.
- **Improve the development of Chinese mainland tourism:** In recent years, impacted by the increased income of Chinese people as well as the

appreciation of RMB, the number of outbound tourism in China is increased dramatically that has been the largest tourist source country, exceeding that in Japan. It is reflected from another aspect that Chinese consumers have strong ability of consuming expensive food and luxury goods and wishes. Therefore, if cutting luxury import tariffs that could reduce the difference of the luxury prices between China and foreign countries, Chinese consumers will consider more domestic tourism due to the cheap cost of domestic cost. It is believed that when losing interests in purchasing luxury by outbound tourism, Chinese consumers will focus on domestic tourism instead, promoting the development of Chinese mainland tourism further.

- **Reduce the amount of expensive food and luxury goods smuggling and decrease the cost of customs supervision:** From the cases made by the customs investigation, there are a series of expensive Food and luxury goods smuggling phenomenon in China currently. It is mainly caused by the following two aspects: one is that it could bring huge profits by smuggling expensive food and luxury goods that avoids paying for high import tariff, value-added tax and consumption tax and the other is that the strong demand of domestic consumers on luxury stimulates the desire of smuggling luxuries for the criminals.

**Adverse impacts of cutting luxury import tariff on Chinese economy:** For one thing, it is seen from Chinese luxury markets that international luxury brands are widely covered, obtaining huge profits each year. In contrast, native luxury brands in China have not built strong and reliable luxury brands due to weak marketing strategies and business positioning that is needed to be improved further. However, when Chinese government decide to cut the luxury import tariffs, more international luxury brands with apparent advantages will be poured into Chinese market, dominating the domestic market quickly that constrains the development of native luxury brands in return.

For another, tourism is an important link of the economy of Hong Kong, making a huge contribution to the economic development of Hong Kong. As Chinese mainland implements high luxury import tariffs, purchasing expensive food and luxury goods has been the main reason for mainland Chinese tourists to travel in Hong Kong. Further, with the increasing demand of mainland Chinese consumers for expensive food and luxury goods, the relatively cheaper expensive food and luxury goods has attracted a huge number of domestic consumers to consume due to carrying out the economic policy of free trade that generally imported merchandises are free duty. As a result, if cutting the luxury import tariffs in China, the difference of the

luxury prices between Hong Kong and Chinese mainland will be shortened sharply that reduces the attraction of Hong Kong for mainland Chinese tourists. Maybe a large of consumers will choose to consume expensive food and luxury goods in Chinese mainland market instead of the Hong Kong market.

#### **SOLUTION AND DISCUSSION ON CUTTING EXPENSIVE FOOD AND LUXURY GOODS IMPORT TARIFFS**

**To develop native luxury brands actively:** After cutting luxury import tariffs in China, it is no doubt that the consumption needs of imported expensive food and luxury goods in China will be growing year by year. It would take certain disadvantageous impacts to the development of Chinese luxury industry to some extent. However, when fully rejecting and criticizing imported expensive food and luxury goods, it will not reduce the consumption demand of domestic consumers for international luxury brands and meanwhile it will cause a large number of luxury consumption incomes and outflow of tax revenue. Therefore, it is necessary for Chinese government to take effective measures to develop native luxury brands actively. There are a series of steps for develop the idea as follows:

- **Set up the brand awareness:** The most characteristic of Chinese native luxury is that they lack brand within high reputation and good image. In general, most Chinese firms only consider physical goods while not setting up the brand awareness that is different from foreign countries. For example, Rolls Royce and Ferrari are endorsements of their own brands, but in China it does not refer to real brands when concerning tea-leaf. Even if some native companies decide to produce in similar ways, they only focus on short-term profits regardless of the profits brought by brands. So it could be seen that the build of luxury brands should be a long-term process that needs long-time operation and management. Further, Chinese firms should make the most of unique profound history and culture to build native brands step by step, cultivating the reputation of brands and then broking the dominated status of international luxury brands ultimately.
- **Promote high quality services:** It is agreed by most experts that consumers who decide to purchase luxury not only consider the quality of products themselves but also pay attention to the added value taken by the products. It is showed that what they purchase is not only a product, it also buy the high quality services in the process of purchasing that bring a satisfied feeling for them. As a result, the quality of service in modern luxury markets is required much severely and it should be

more paid attention to by Chinese luxury industry, requiring providing high quality services.

**To cultivate talents in native luxury industry:** As the entering of many international luxury brands and the development of native luxury brands in China, there is a shortage of expensive food and luxury goods management talents that constrains the development of Chinese luxury market. It is apparently known that luxury brands will suffer losses due to the shortage of outstanding expensive food and luxury goods management talents, especially in China, the professional executives on luxury management is very scarce.

As for the practitioners of luxury brands, it is necessary to possess high quality and cultural accomplishment. In the current stage, there is a huge shortage of talents in Chinese luxury industry, demanding to cultivate a large of number of talents. In order to cultivate this kind of talents, some universities in China have started to set up the course called luxury management.

**Support the healthy development of luxury industry made by Chinese government:** On the one hand, as the decreasing of luxury import tariffs, it will be more and more urgent for the Chinese government to build large international shopping centers and malls so as to handle the substantial international luxury brands poured into China. Government should make the best of its capital and resources to build more market facilities and optimize related environment with the purpose of supporting the construction of luxury consumption market ultimately.

On the other hand, as for fledgling domestic luxury brands in China, the government should take more effective measures to support its development. For example, the government makes some extra preferential policies on tax to help these firms strengthen the competitiveness with international luxury brands.

## CONCLUSION

In conclusion, based on the conception of luxury, the situation on the development of Chinese luxury

consumption as well as its market is demonstrated in detail, pointing out that the development of Chinese luxury market is still in the initial stage though there is a huge potential in the luxury market. Further, the effective measures on how to deal with the decreasing luxury import tariffs in China are put forward by selectively analyzing both the advantages and disadvantages of cutting luxury import tariffs on Chinese economy.

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