

CHINA CRISIS

Five knock-on effects of China's economic turmoil

BY SUZANNE BEARNE

CHINA ACCOUNTS for 15% of the world economy, so the old adage that when the US sneezes, the world catches a cold can also be applied to the Asian giant. After years of economic growth, China's bubble has been pricked. Here is how the fallout could hit UK retailers.

1 Nose-diving share prices and trouble for luxury retailers

The downward spiral of China's stock market spooked investors worldwide, with nearly £75bn wiped off the value of the FTSE 100 last Monday.

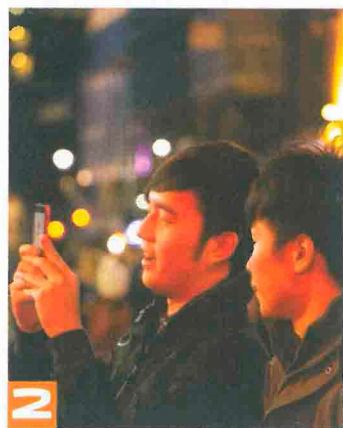
The Black Monday stock market crash affected companies across the board but China's slowing economy will certainly be of major concern to the luxury sector. Reports suggest that about 30% of Marc Cain, Gucci, Burberry, Prada and Salvatore Ferragamo's sales are made by Chinese shoppers, making them particularly exposed to the Chinese market.

Burberry has become increasingly reliant on Chinese shoppers' demand for luxury goods. However, in its trading update for the three months to the end of June, the retailer said that it had seen growth in the region decline to low single digits compared with high single digits the year before.

2 Potential fall in Chinese visitors to the UK

The calamity of Chinese Black Monday could spell trouble for British retailers because experts believe it could lead to a drop in Chinese shoppers – known for propping up many of the stores in the West End – coming to the UK.

Kimberly Urbaniak, marketing



manager at traveller finance firm Global Blue, says: "The unstable situation in China following the weakening economy will leave shoppers disinclined to travel and it is highly likely this will have a significant impact on international spend in the UK as a whole as the instability ripples throughout Southeast Asia."

Chinese visitors make up the largest proportion of international shoppers in the UK, representing 25% of total tax free spend according to the Global Blue's Tax Free Spend Index.

Urbaniak advises that "with Chinese Golden Week, a key period for travel, just around the corner [Starting October 1], UK businesses should renew their



emphasis on strategies that attract these shoppers to capitalise on the spend potential of those individuals who do come over, making sure the spend growth seen over previous years continues".

3 Question marks raised over retailers' Chinese plans

As the Chinese economy grows and demand for UK goods increases, many retailers have opened stores in the region over the years. However, the current economic turmoil could lead to retailers delaying or even cancelling plans to expand in

the region as they wait and see how the crisis plays out.

Sanpower-owned House of Fraser and Walmart both plan to expand in China over the next couple of years.

4 A knocked-down price for Tesco's South Korean business

The crisis in China won't help Tesco achieve the billions it wants – and needs – for its South Korean business.

The \$6bn (£3.8bn) price tag it asked for its Homeplus business is unlikely to be achieved following local currency plummeting because of the stock market issues in China.

Homeplus – seen as one of Tesco's most successful assets – has attracted the interest of three bidders: Asia-based Affinity Equity Partners and US private equity firm KKR; Carlyle Group and Singapore's GIC; and north Asia-based private equity firm MBK Partners, together with South Korea's National Pension Service, according to *The Independent*.

5 Fall in prices of Chinese goods

One direct consequence of the crisis is that the cost of Chinese goods and commodities will fall, according to Gifi Fields, chief executive of Coppernub, which supplies clothing to the high street.

He explains: "The cost of Chinese goods will fall as a result of the Government devaluing the Yuan to make Chinese goods more competitive. Prices of virtually all commodities throughout the world are falling. The price of cotton and cotton loomstate in particular has collapsed in India and weaving mills have been forced to close or are short-time working. This has a knock-on effect in China, for example. Without global growth economies stagnate and commodity prices deflate."