

Is the luxury goods market built on the proceeds of tax...

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This [caught my eye in the FT this morning](#):

Despite significant investment by some of the world's leading brands in glossy stores and staff training, mainland Chinese consumers continue to spend heavily outside their home nation; Bain reported that 67 per cent of all Chinese luxury purchases this year were made overseas.

I wonder how much of that spending is settled using credit cards charged to BVI company accounts, themselves stashed with illicit funds smuggled out of the Chinese economy?

Don't doubt the significance of this. China has the [highest net illicit outflows of any economy in the world](#). And as the FT, again, [notes](#):

The country's overall clout in the sector is not diminishing — Greater China now accounts for a quarter of Louis Vuitton's revenue, 35 per cent of Cartier's, and a whopping 45 per cent of Omega's, according to Exane BNP Paribas.

Those facts - high illicit flows and high offshore conspicuous consumption - are not unrelated. One, I am quite sure, directly fuels the other. And don't dismiss the consequences of it either.

First, such consumption, supported by a whole PR industry that starts with the FT's 'How to spend it' and flows on from there, this spending is designed to distort economic perception and create imbalance: this is what Thorsten Veblen taught a century or so ago, even if his work is largely ignored by economists now.

Second, such flows clearly do destabilise China - which is as likely a source for the next major economic crash as anywhere.

Third, such spending distorts economic priorities in the rest of the economy and misallocates resources towards what is no doubt, at least in part, an illicitly funded activity.

What to do about it? Well, let's start with a requirement that money laundering checks be a pre-condition on buying goods with cash or on credit cards issued from tax haven locations for sales above £10,000 or equivalent. We already impose this on some sectors for transactions of this value. So why not luxury goods? After all, do we want at least part of our luxury goods market to be built on the basis of the proceeds of tax crime?