

Hong Kong Jewelry Manufacturers Seek Growth in China

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RAPAPORT...The Hong Kong Jewelry Manufacturers Association (HKJMA) was founded in 1988 to represent the shared interests of the territory's jewelry manufacturers. The association also serves as the Hong Kong representative of the World Jewellery Confederation (CIBJO). Adam Lau, HKJMA's chairman, recently explained to *Rapaport News* some of the dynamics behind Hong Kong's jewelry industry and the role that HKJMA plays in it:

What is your background and how did you get into jewelry manufacturing?

I began working in the industry in 1986 at Anju Jewellery, which was the Hong Kong subsidiary of the U.S.-based fine jewelry manufacturer Town & Country Corporation. Anju Jewellery was one of the four biggest jewelry companies in Hong Kong at the time and catered to overseas tourists visiting from the U.S., Europe and the Middle East, as well as making jewelry for export.

After Anju, I moved to Tse Sui Luen Jewellery and East Arts Jewelry for a few years. Eventually, I decided to set up with my partners our own business, Able Jewelry, in 1994.

My involvement in the HKJMA began close to 10 years ago. For a long time, I volunteered as a member of its working group committees and, last year, I was elected by the members to serve as HKJMA's chairman.

Are HKJMA members' factories or just their headquarters located in Hong Kong?

The HKJMA has over 400 members. I think 95 percent of them have already moved factories to the nearby Pearl River Delta region in southern China because the labor costs are much cheaper. Close to 100,000 people work in jewelry factories owned by Hong Kong manufacturers there.

In 1983, when China began opening its market to foreign investment, the labor was very cheap – close to \$4 per month per worker. Today, workers in southern China earn \$550 per month. In comparison, at the end of the 1980s, a good worker in Hong Kong already earned about \$1,300 per month.

The only jewelry manufacturing left in Hong Kong today are small factories that have a few people who work together on bespoke pieces.

Hong Kong excels in logistics, which is why all the manufacturers have kept their headquarters here. We can buy stones from all over the world cheaply and easily in Hong Kong and ship out the finished jewelry with quick turnaround times.

Hong Kong is also a convenient place for overseas buyers to visit because so many manufacturers have their showrooms here that someone can finish their buying for the season in just three days to a week.

Can you explain what the HKJMA does?

HKJMA has three membership tiers: ordinary member, associate member and information service member. The first two types enjoy discounted rates to participate in overseas delegations, local jewelry exhibitions, trade talks and training seminars organized by HKJMA. Information service members receive useful information on the industry from HKJMA.

To achieve our organization's goal of raising Hong Kong jewelry's global status and reputation for brilliant designs, HKJMA organizes a Hong Kong pavilion for all its members to exhibit under one roof at overseas shows in the U.S., Europe, Middle East and Asia. We also hold the Hong Kong International Jewelry Manufacturers Show (HKIJMS) every year, which serves as a sales and trading platform for exhibitors and global buyers, especially those from China and Southeast Asia.



The show has been held for 22 consecutive years, and while the September Hong Kong Jewellery & Gem show is the biggest in the world for jewelry exhibitions, HKIJMS is becoming a large show in its own right. This year's show, which was held November 27 to 30, was quite exciting for us as the number of buyers that attended increased by 18 percent.

A lot of people around the world think the economic situation in Hong Kong is bad because of the Occupy Central protests, but Hong Kong is safe and open for business. In fact, none of our exhibitors for the show cancelled.

A lot of our readers are concerned about the Far East market in 2015. How is the jewelry market in Hong Kong?

Fine jewelry exports actually increased 2 percent year on year for January through October, according to government figures. Until the end of September, the figures showed a 3 percent decline, but it appears that the market picked up in October. We expect that in the fourth quarter jewelry manufacturers will regain any ground lost earlier in the year.

I think the reason diamantaires thought the September show was slow may have been because large diamonds over 1-carat have been moving slowly this year. Demand for more expensive goods in China, and even South Asia, has been weakening. But demand for small diamonds is still strong, especially for those between 0.30 carats and 0.70 carats.

This year was and maybe next year will be a weak period for high-end luxury goods, but in 2016 business might already be back on track. A major reason for this is the Chinese government's anti-corruption campaign.

Right now, a small portion of people in China have most of the money but are hiding it. If the anti-corruption campaign restores some fairness to society, people who work hard will be able to do well. As a result, there will be more middle-class people in China and Chinese demand for jewelry will be healthier in the long run.

For Chinese consumers, the most desirable jewelry is 24-karat gold and the second is jade. But the price of jade has become crazy in the past two years and the younger generation is looking for something a bit more exclusive and different than traditional gold jewelry. As a result, there is increased demand for bespoke jewelry in China and demand is still very strong for diamonds.

China has become a really big market for diamonds, especially since the Shanghai Diamond Exchange (SDE) was established in 2006. This created an officially sanctioned entry point for importing diamonds into China. When you ship diamonds to China through the SDE, you pay just 4 percent value-added tax (VAT), as opposed to the previous rate of 17 percent.

Has the opening of the SDE hurt diamond jewelry sales to Mainland Chinese tourists in Hong Kong?

Not really, since most of the people that come from Mainland China to shop in Hong Kong are attracted by the price difference. Hong Kong is a free port where everything is duty free, except tobacco. Taxes are also very low. Basically, the only tax we have is a 15 percent corporate income tax.

If you look at the price of something like a brand-name watch in Hong Kong and compare it to the same item's price in China the difference is usually 25 percent to 30 percent. This encourages a lot of Chinese tourists to come to Hong Kong to do their luxury shopping.

However, the market in Mainland China is very big and maybe just 10 percent of potential shoppers come to Hong Kong once or twice each year. The rest of the year they buy in their local market.

Are Chinese consumers buying diamond jewelry as an investment or as a fashion accessory?

Cities like Shanghai or Beijing are modern, global cities so they buy jewelry for fashion. But this concept has not yet caught on in most of China. Close to 50 percent of Chinese people live in rural areas where people don't spend a lot on consumer goods. At present, an estimated 50 percent of jewelry sales in China is driven by wedding demand, but this will change as China continues to urbanize. The less developed a city or region, the higher the share of jewelry purchases that are driven by wedding demand.

Last year the Chinese market was crazy for 24-karat gold, which was traditionally the best way to invest money because it can easily be exchanged for cash. But when the price of gold becomes volatile, and as

Chinese people gain access to more modern investment channels, demand for 24-karat gold has cooled. This has been good for sales of diamond-set jewelry.

Hong Kong consumers are a very different demographic. Hong Kong has a population of just 7 million people and their jewelry tastes reflect that of a mature market. In general, the Hong Kong market is much more conservative and people usually buy commercial-quality diamonds or jade fashioned into fancy or intricate jewelry designs.

If they can afford it, consumers from Mainland China like to buy D, IF to VVS diamonds.

When did the Hong Kong manufacturers transition to China as their major export market?

Actually, Hong Kong manufacturers mainly export to markets elsewhere around the globe. For Hong Kong manufacturers, the major export market is still the U.S., followed by Switzerland, the UAE and the U.K.

Mainland China is served primarily by local manufacturers because local companies understand how to sell to Chinese consumers and operate better in the tax environment there. We manufacture in China but fill orders from abroad. We send the gold, diamonds and all other materials to China and send the finished jewelry back to Hong Kong.

The entire system is different if you are manufacturing and selling in China, especially the tax structure. You have to pay the import duties on every material, which means you either have to buy the diamond in China or import it through the SDE where you pay the special VAT. You also have to compete with local manufacturers. The very big Hong Kong manufacturers, like Chow Tai Fook, have factories in China that operate under the local system and can sell directly in China.

How do you see Hong Kong's jewelry manufacturers evolving over the next decade?

Hong Kong manufacturers must cater more to the market in Mainland China for future growth because China is now the second biggest jewelry market in the world after the U.S.

During the past 10 months, I went on a trip with members of HKJMA's China Affairs sub-committee to Shanghai, Zhongqing, Ningbo, Hangzhou and Shenzhen to pave the way for jewelry manufacturers who intend to open up businesses in China.

The creation of online sales platforms and digital marketing will become a growing trend. HKJMA has already established a digital marketing department to bring the latest industry news and information to members. We also intend to create an ecommerce platform to expand trading opportunities for jewelry manufacturers and set up a diversified trading environment.