

# Shanghai Flash

ISSUE NO.2 ♦ July 2004

## Brief Report on the Chinese Jewellery Industry

### Development of the Chinese jewellery industry

The development of the modern Chinese jewellery industry didn't start till 1982. At that time, gold jewellery was the main, if not the only consumption category among jewellery products due to the traditional Chinese concept of buying gold for saving. The entering of De Beers diamond into the Chinese market in 1993 started the Chinese consumption of diamonds. In 1994, the International Platinum Association introduced platinum products to Chinese consumers. Platinum and diamond products have become popular since then. Jewellery consumption, following housing and automobiles, is becoming more and more important in China as a consumption item.

With the fast growth of the economy, the Chinese jewellery industry has also developed rapidly in the past 22 years. The annual turnover has reached around RMB 100 billion today, among which the consumption of gold, diamond, platinum and silver is RMB 28 billion, RMB 15 billion, RMB 12 billion, and RMB 5 billion respectively.

### Main distribution centres in China

The main jewellery markets of China are centred in the city of Shanghai and Guangdong Province. Shanghai has an estimated 20% share of China's market, while the Shenzhen City from Guangdong Province is the base for jewellery processing.

Shanghai, the fashion centre of China, is also a pioneer and an important city in the Chinese jewellery industry. It hosts most international jewellery organisations such as The World Gold Council, the DTC Diamond Promotion Centre, the International PT Association, and the Tahiti Pearl International Promotion Centre. The Shanghai Diamond Exchange and the Shanghai Gold Exchange were founded in Shanghai in 2000 and 2002 respectively. A regulated Chinese jewellery market is taking shape. Major jewellery retailers in the city include Laofengxiang, Laomiao, Chenghuang and Yuyuan. Hong Kong brands such as Chow Tai Fook, Tse Sui Luen, J's and Luk Fook can also be seen in the market. International brands Cartier, Bvlgari, Tiffany & Co and so on have opened stores in Shanghai as well. Sales in the Shanghai market are very inviting. Annual sales accounts for 20% of the national total and they are increasing at a rate of 10% per year. However, in spite of the booming market, most of the jewellery items sold in Shanghai come from out of town, with a large amount from Guangdong Province. According to Laofengxiang, around 70% of Laofengxiang's merchandise is sourced from Guangdong, mainly the city of Shenzhen.

Shenzhen is a big market on its own in addition to its large processing base. Being one of the earliest Special Economic Zones opened to the outside, Shenzhen is adjacent to Hong Kong. In fact it shares one street with Hong Kong, which is the famous Sino-UK Street in the Shatoujiao Bonded Area. This gives Shenzhen the advantage of introducing fashion and technology from Hong Kong to the hinterland of China. Shenzhen's gold processing volume makes up 70% of the national total and accounts for 10% of the city's industrial output value. The Shatoujiao Bonded Area alone contributes to half of Shenzhen's gold jewellery output.

## General consumption situation and the consumption on jewellery

The Chinese have never been in lack of a passion for jewellery, not only for fashion and decoration but also for social status. It is not surprising to see sales of jewellery increasing rapidly in a relatively short time period since 1982. The consumption of diamonds in China in 2003 was \$1.1 billion (around 110,000 pieces), ranking No. 2 in Asia, and fifth place world-wide. Gold consumption is up to more than 200 tons. It is the third largest gold market in the world. However, current consumption is mainly centred in the low-end or middle-level jewellery products for the purpose of fashion and decoration. The tables below state the actual consumption situation in nowadays China very clearly as jewellery does not show as a key item in an individual asset portfolio or as an important consumption item so far:

### *Average distribution of financial assets owned by urban residents' family*

Assets Items	Average Sum Owned by Each Household (Yuan)	Composition
Total Yuan assets	73,706	100.00
Savings deposit	51,156	69.41
Stock (small shareholder)	7,374	10.00
Treasury bond	3,210	4.36
Insurance	3,094	4.20
Surplus of housing provident fund	3,036	4.12
Cash in balance	2,730	3.70
Loan	2,512	3.41
Other negotiable securities	359	0.49
Others	235	0.32

### *Annual consumption expenditure per capita of urban residents on average*

Items	2000	2001	2002
Consumption expenditure	4998.0	5309.0	6029.9
Food	1958.3	2014.0	2271.8
Clothing	500.5	533.7	590.9
Family equipment, articles for use and services	374.5	438.9	388.7
Medicare and healthcare	318.1	343.3	430.1
Communication	162.2	175.5	267.2
Telecom	232.8	281.5	358.8
Durable consumer goods for entertainment	217.8	211.6	245.2
Education	363.8	428.3	495.2
Housing	500.5	548.0	624.4
Miscellaneous goods and services	258.5	284.1	195.8

\*reference taken from *China Business* by *China International Press published in 2004*

The Chinese people are still following the traditional concept of putting money into bank or buying stocks for saving. People have realised little that purchasing high-end jewellery products is another method of saving. One reason is because of limited purchasing power. Another reason is the fact that at the moment, all domestic jewellery products are priced by weight, which results in the fact that people only perceive gold jewellery as a means of saving, because gold alone has an internationally agreed price. On the other hand, there is no regulated appraisal system for selling

second-hand jewellery, more often people get much less money than they have paid when they try to return the jewellery.

However, it is quite reasonable to think that this situation will change when the market gets mature and more international jewellery companies enter into China with their developed systems.

### **Existing problems of the Chinese jewellery industry and adjustment of regulations on the industry**

The Chinese jewellery industry is still at the beginning stage of development. Jewellery products are lacking diversity and alternatives. The technology of processing and the design of jewellery still need to be improved. Lack of professional management teams and professional jewellers result in price wars in the industry and low creditability of merchandisers. Copy right protection is another important issue needed to be solved.

The Chinese jewellers have realised these problems and tried to find solutions, for example, to introduce a better mechanism in relation to pricing and to establish a better market environment.

Meanwhile, the Chinese government has adjusted regulations on the Chinese jewellery industry. The People's Bank of China removed all barriers to gold licensing for the manufacture, distribution and retailing of gold products at the beginning of April. Chinese policy makers are also looking at plans to scrap the consumption tax on gold jewellery. The average jewellery import tax has been reduced to 10% in January 2004 as a commitment to WTO. However, the Shanghai Gem Association has called attention to the fact that details and rules governing China's reform of the jewellery trading system are still unclear.

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