



Date: 16th September 2005 through 25th September 2005

Places Visited : Shenzhen, Panyu, Wuzhou & Shanghai at China & Hong Kong

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- Background & Composition of the Delegation

The only thing that is constant, according to some great thinkers and doers, is the philosophy of the constancy of change, a paradox that is vital to the evolution of better thoughts, people, and of course, Nations. This is the philosophy that China woke up to. Tiananmen Square changed faces, from a center of protest to a polished tourist attraction, comrades who were up in arms against all forms of economic liberation became active enthusiasts of the change theory -And the world saw the Emergence of China as an unstoppable force, strong enough to tilt balances and powerful enough to capture the world market.

The recent revaluation of "Yuan" after nearly a long eleven-year gap and the paradigm shift from a system of fixed exchange rate to a system of managed float, China has finally broken free from the shackles that arrested its progress. This was a step that told the world in straight terms that China was here in business and here to stay, a sort of a wake up call that "borders are out, business is in."

Despite differences that go back decades, India & China, now caught up in the fresh waves of generating excellence in all new ventures, are slowly extending the hand of

friendship. Together, they probably form the most important hubs of economic activity in the world. China now serves investment paradise for most asset management and infrastructure companies from India, thanks to the seven-fold increase in trade between the two countries over the last five years. The Chinese market has a large share of every manufacturing sector, automobiles, telecom, and steel, to name a few. Statistics reveal that India's exports into China are more than China's into India. As it's fondly referred to, China is an "economic powerhouse" fast becoming the country with the world's second largest foreign exchange reserves. It is surprising to note that 400 of the Fortune 500 companies are either investing or manufacturing in China, which indicates that China has finally opened its doors and with it, the economic policies.

What piqued the interest to the Gems and Jewellery Export Promotion Council, was the fact that China's gold consumption value will total almost 18 billion US\$ with an annual export value of over 15 billion US\$ by 2010 and that China would become the third largest gold-needing market after India and USA. It was on this promising note that the Gems & Jewellery Export Promotion Council proposed an 11-member Delegation Visit to China, whose main objectives would be to explore possibilities of two-way trade and gain a bird's eye view of the Chinese market.

The delegation had manifold missions and they are listed below:

- Study of the Gems and Jewellery industry in China
- Explore possibilities of cooperation between the industries.
- Visit important fairs in China/Hong Kong to gain more insight into their products.
- Visit manufacturing units to study the processes governing manufacture.
- Compare various aspects of manufacturing (diamond/jewellery/synthetic stones)
- To analyze our advantage vs. The Chinese advantage
- Study how/why China's synthetic stones manufacturing and calibrated stones manufacturing is above par.

The main challenges that were ahead of the delegation were:

- To determine if China is a potential market for Indian gem & jewellery instead of being seen as a potential threat.
- To also determine if CEPA (Closer Economic Partnership Agreement) generates interest among Indian companies to look at the possibility of exports into China through Hong Kong.

The hopes and the objectives of the delegation were:

- To promote two-way trade between India and China.
- To suggest to the Government (based on the research done during the study) - to inculcate/implement China's approach to the Indian market.

To generate a detailed report containing recommendation in terms of improving and projecting China as a potential market than a threat, and thereby drawing closer to the new benchmark that Council has set for itself in reaching 16\$ Billion by 2007.

With these in the background, the delegation was planned with the most valuable support/coordination and help of Embassy of India, Beijing, Consulate General of India, Shanghai, Consulate General of India - Hong Kong from 17th September 2005 through 25th September 2005.

The composition of delegation was

Leader of the Delegation

Shri. Naresh Mehta - Convener - Southern Region, GJEPC

Member Secretary

Shri. Ruban Hobday - Director - Southern Region, GJEPC

Shri. Govind Laljibhai Dholakia - Diamond Panel

Shri. Vishal Shirish Bhansali - Diamond Panel

Shri. Ravi R Sanwalka - Diamond Panel

Shri. Mohanlal Gupta - Gold Jewellery Panel

Shri. C.V. Ravindranath - Gold Jewellery Panel

Shri. B.N. Gupta - Synthetic Stones

Shri. Ashok D Gandhi - Synthetic Stones

Shri. B. Tarachand Jain - Synthetic Stones

Shri. V. Badri Narayanan - Synthetic Stones



- Acknowledgement

We take this opportunity to thank Ms. Namgya Khampa, Second Secretary (E&C), Embassy of India, Mr. B. Vanlalvawna, Consul (Commercial & Consular), Consulate General of India, Shanghai for their support and help in organizing the factory visits/trade meetings/fair entry and all the other meetings at Shenzhen, Wuzhou and Shanghai. We also would like to thank Gemological Association of China, Beijing, and

The Chamber of Commerce of Gem Wuzhou China for their support and coordination for the delegation's successful visit to China. We would like thank Mr. K. Nagaraj Naidu, Consul (Commercial & Political), Consulate General of India, Hong Kong for his support in organizing trade meetings at Hong Kong.

The input in this report is collected during the visit through interactions, brochures, information booklets, website, inputs from delegates, associations etc. The statistics and other information has been collected/reproduced from publications of the Consulate General of India, Shanghai and Embassy of India, Beijing wherever necessary.



- Day wise Proceedings

The coverage of various cities and dates for the delegation's visit was planned bearing the constitution of the delegates and the need to explore diamond, gold jewellery and the synthetic stones industry. This also was planned with the objective of visiting major gems & jewellery fairs in China during September. Shenzhen and Panyu (a 2 ½-hour drive from Shenzhen) are the most established gold jewellery manufacturing centers in China with Shanghai being the trading center for diamonds. The delegation also was informed that a small town in the Ghouanzhou District called Wuzhou was the place for manufacturing and trading of synthetic stones. Hence the Council planned the delegation in such manner so it could visit Shenzhen, Wuzhou & Shanghai. The delegation dates were fixed so that that it would also coincide with the 6th International Shenzhen Jewellery Fair & the Hong Kong Jewellery & Watch Fair 2005. The schedule is enclosed for reference, which was adhered to strictly during the delegation.

➤Shenzhen & Panyu (17th through 19th September 2005)

The delegation reached Shenzhen by road from Hong Kong on the 16th September 2005.



On the 17th morning the delegation traveled 3 hours to visit the Guangzhou Weile Jewellery Industry

Park, Sha Wan Jewellery Industrial Park, in the Panyu Area, and Guangzhou City. The delegation was given a guided tour of the jewellery park, which had 16 factory buildings and six dormitory buildings at the moment, as part of their first phase program. They have planned to expand in the future. 16 multinational companies have entered into the

park mainly from USA, France, Japan, Canada, Singapore, Burma, Hong Kong, Taiwan and India. In fact 3 major diamond cutting and polishing companies from India have established their presence at this park. A few of the delegates were keen to know about investing/setting up their factories at this park. It is believed that Panyu is the largest production base of jewellery in China and also in South East Asia. Panyu has the whole host of processes in the jewelry industry, ranging from equipment making, diamond polishing, gold-inlaid ornaments, silver ornaments, pure gold, karat gold, precious crafts, and jewel watches etc. The delegation was received by the Panyu Foreign Trade & Economic Bureau officials.

The Worldmart Jewelry & Gems Emporium Ltd office was the delegation's next stop. A presentation by Ms. Carol Chenung, Strategic Director, explicitly highlighted the recently launched attractive international diamond purchasing centre, a trading platform for jewellery suppliers as well as traders from all over the world.



Worldmart is a prime project supported by the People's Government of Guangzhou municipality, co-sponsored by Guangzhou Customs and Panyu CCPIT. She also briefed the delegation about the functions of the company, facilities of Worldmart and also encouraged the delegates to look at setting up stores/processing centers at Worldmart.

Worldmart Jewellery & Gems Emporium Ltd along with the Panyu Foreign Trade & Economic Bureau hosted lunch for the delegates.

The delegation visited the Panyu Jewellery Technology Training School after lunch, which was situated in very picturesque surroundings. The training institute gave the delegation an in-depth view of the machinery being used, the courses offered by them and the delegates also had a hands-on experience about the technical aspects of jewellery manufacture being taught at this training institute.

The delegation visited the factory premises of M/s. Noble Jewellery Ltd (Yizuan Jewellery Company). The delegation was met by the Factory Manager and Marketing Communications Manager who were kind enough to take the delegation inside the factory premises. The delegates were surprised with the progress in manufacturing and the quality jewellery, meeting international standards. This factory had state of the art equipment and machinery to produce gold and studded jewellery. The delegation



returned then to Shenzhen.

On 18th morning the delegation was met by Mr. Longman Hee of Gemological Association of China at the 6th International Shenzhen Jewellery Show which was held at the Shenzhen Convention Center. A meeting was arranged with the Chairman Mr. Xu Jinchi of Shenzhen Gold Jewellery Association and

Vice Chairman of Gemological Association of China. Mr. Naresh Mehta spoke about the

Indian industry and its progress and the need for closer links with China in the future. He also invited him to visit IJS 2006 to know more about the Indian jewellery industry.

The show had a lot of loose diamonds dealers and jewellery manufacturers from Panyu and other parts of China. There was a dazzling array of precious and semi-precious stones along with most innovative packing material. The delegates spent the entire day at the show and felt that it was an extremely useful show for them and served as a launch pad to understand the Chinese market.

On the morning of 19th the delegation visited the Showroom and Factory of Cuilu Gold Company, which is a large jewellery manufacturer, wholesaler and exporter of gold, platinum, 18 karat, yellow, white gold and diamond jewellery. The production facility covered over 20000 sq mt. The delegates were amazed at the finish of the jewellery, the showcasing of jewellery, production facilities, systems and flow of production. Mr. Zhang,



Manager welcomed the delegates and after the guided factory/showroom visit the delegates had a meeting with the production team and sales team to know more about the market. A few of the delegates were keen to source mountings from them or be agents in importing into India. Ideas were exchanged during the discussion. Mr. Naresh Mehta thanked the factory manager and his team for the support and the explanation offered about the process/business dealings to the delegates. The delegation left Shenzhen to Wuzhou by road in the afternoon and reached Wuzhou by 9.30 in the evening, the same day.

▶ PANYU-JEWELLERY CITY OF CHINA

- Panyu jewelry industry was in its stages of infancy in 1986, but with the labor availability and its strategic geographical positioning, it became the largest production base in China.
- It is believed that over 200 jewellery or jewelry-related companies with 50 thousand employees are housed in Panyu.
- The total production is estimated to exceed 7 billion RMB and the total export tops the record of 890 million USD.
- The value of processed diamond export is about US\$ 250 million in 2004.
- Panyu exported US\$0.89 billion worth of jewellery products, accounting for 63.6% of Guangzhou area's total in 2004
- Panyu shares more than 20% of the nationwide export capacity.
- Over 95% of branded jewellery is processed in Panyu.
- Hong Kong is the third largest jewellery processing and export center, over 60% of products in Hong Kong are from Panyu.
- Jewellery is one of the fastest growing, most successful export oriented industries in Panyu.

- The industry has been supported and promoted by the local government. Under this environment, Panyu has become the largest processing centers with the maximum concentration of manufacturers, most advanced technology and the most mature investment climate.
- The main export destinations are markets in US, Europe and South East Asia. Panyu has five reasonably large-scale jewellery processing zones.
- The range of products varies from jewellery equipment manufacture, polished diamonds, jewellery inlaid with gold and platinum, silver jewellery, pure gold and K-gold jewellery, high value handicrafts and jewellery watches etc.

➤Wuzhou (19th to 21st September 2005)

The delegation reached Wuzhou by road around 9.30 pm the evening of 19th and was welcomed by Mr. Huang Guo Qiang, Chairman, The Chamber of Commerce of Gem, Wuzhou China, Liang Jia, Vice General Secretary, The Chamber of Commerce of Gem Wuzhou China, Li Yekai, Deputy Secretary General, Wuzhou Municipal people's Government. The Chamber of Commerce of Gem Wuzhou China and Wuzhou Municipal People's Government hosted the welcome dinner at Wuzhou Hotel for the delegation. The delegates were able to introduce themselves and had a one-to-one interaction during the dinner meet. The Chairman also informed the delegation that a whole-day program was fixed for the next day and was looking forward to closer interaction. Mr. Naresh Mehta thanked the Chamber for the warm welcome they received and informed him that the delegation was looking forward for an action packed day.



On the morning of 20th September 2005 the delegation visited two synthetic stones manufacturing factories (Lead Mens). The factories were equipped with the latest machinery for cutting and polishing synthetic diamonds. The representative delegates from the synthetic stones segment were amazed with the progress of this industry when compared to India. They

agreed that the most modern of all equipment was not even heard of in India. It was also observed that the labor force is more disciplined, in turn increasing the production. It was mentioned that one laborer working on a machine can produce 5000 pcs in Wuzhou whereas it was felt that in India one person could only produce only 500-1000 pcs. It was observed that some of the workers were working on 3 machines at the same time, which enables them to produce more and of a higher quality. It was noted that disciplined labor and availability of latest machinery has made Wuzhou the largest manufacturing center for synthetic stones in the world. It was informed that 60% of the world's synthetic stones are cut and polished from Wuzhou.

The delegation was taken around the Jewel City, a large jewellery-trading center for jewellery



processing, trading, tourism and exhibitions, which housed most of the companies dealing with synthetic stones under one roof. This concept makes the business grow more providing a one-stop facility for overseas buyers and the others from China as well. A meeting was held at the office of Jewel City with the association members and others to discuss and clarify any queries with regard to the synthetic stones industry.

After lunch, which was hosted by the Chamber, the delegation visited the Wuzhou Training School to know more about the methodology and systems adopted in training the artisans. It was noted that most of the machinery being used to train them are lacking in India particularly in Trichy, a small town in South India where the synthetic stones trade is slowly taking wings. It was also observed that no proper training school is available at Trichy to train the artisans who are still following the old method where quality or the calibration of stones is not adequately achieved, creating a large gap between products in both markets. It was felt that if these methods can be adopted at Trichy along with proper training of artisans, then Trichy will certainly flourish in the trade and can play a major role in the growth of this industry.



A meeting was arranged by the Chamber with Ms. Yang Jin Ping, Deputy Mayor, Wuzhou Municipal People's Government at Hotel Riverside in the afternoon which was attended by most of the top officials of the Wuzhou Municipal People's Government from the Investment and Export Promotion Bureau and Members from the Chamber of Gem Wuzhou, China. The press/media were also present during the meeting. The Deputy Mayor

welcomed the Indian Delegation and informed that this was the first major delegation from India visiting Wuzhou and that she was glad to welcome them to see Wuzhou and its potential for investment and other business development.

She highlighted about Wuzhou and its vast potential in Synthetic stones industry and the progress that Wuzhou has made in contributing to 40% of the world's cut and polished synthetic stones production and the nation's total. She informed us that there are more than 3 million people employed in this industry

producing 6.1 billion pieces of synthetic jewels every year. Almost 600 factories/trading companies are involved in this industry at Wuzhou alone. She said that they were proud to say that Wuzhou has been recognized as the World City of Synthetic Stones in the international market. However she said though it is famous for cutting and polishing they are not able to make inroads



into fabrication of jewellery with synthetic stones. They have not explored the possibilities of adding value to the stones in making jewellery, which she felt that India had an edge over. She also touched on the fact that Indian businessmen can look at investing in Wuzhou since it was investor friendly with adequate infrastructure, with power and water being cheaper and continuous in their supply for the industry.



Mr. Naresh Mehta, Leader of the Delegation thanked the Vice Mayor for the warm welcome given to the Indian Delegation and appreciated the effort of the Chamber and the Government in providing the information and the support. He explained about the Indian gems & jewellery industry and its progress in the international market. He also briefed the mayor on the inroads

the diamond industry has made so far and assured her that he would carry the inputs back to India and weigh the possibilities of investing in Wuzhou. Mr. Ashok Gandhi from the synthetic stones industry from Trichy thanked the industry people who were present and assured that the Indian businessmen from this industry will be keen to partner/invest in Wuzhou soon.

The organizing committee of the 2nd Wuzhou International Jewel Festival requested the delegation to visit the show starting 27th September to 5th October 2005 at the Jewel City, Wuzhou as it was a successful event last year (2004). Mr. Naresh Mehta thanked the committee for the invitation however regretfully informed them that since the delegation had to visit Shanghai and Hong Kong they would not be able to stay back. However he informed that 4 of the synthetic stones delegation members will be staying back to visit the fair and requested them to organize visas, entry etc for their participation for which they readily agreed. Mr. Naresh Mehta invited the Vice Mayor to visit IJS 2006 to see for herself the Indian Industry in all its glory. He later met the press to discuss about the mission of the delegation. The press/media reports were screened on the local television channels the same night.

The Vice Mayor hosted a dinner in honor of the Indian Delegation at the same hotel which was attended by all the top officials of the Wuzhou Government and the industry leaders. The day ended in the night by visiting few important landmarks and shopping centers at Wuzhou.

On the morning of 21st September 2005 the delegation departed to airport to board a flight to Shanghai from Guangzhou's airport, which was a 6-hour drive from Wuzhou. Four of the synthetic stones member stayed back at Wuzhou to visit the factories and to study the working models and methodology to implement the same at Trichy. As per the original plan. 7 of the delegates left Wuzhou (including the member secretary) to Shanghai that morning. The delegation reached Shanghai in the evening.

Observations on Synthetic Stones Industry in Wuzhou:

- Cubic Zirconia & Synthetic Gems are produced and sold in calibrated sizes by all the Chinese manufacturers through out world.
- Besides Round shapes (which is maximum in demand) they are also well equipped to make all other conventional and few very unconditional shapes which are very unique and new in the market.
- The Techniques & Technology used by the manufacturing units are very simple but very effective
- The production units in China are more organized and they have all the production facilities under one roof.
- The production units have the flexibility of altering its setup to make all the shapes and sizes as per the demand.
- The training institute situated at Wuzhou is providing comprehensive training in various processes, aspects and training of synthetic and Cubic Zirconium processing. This institute creates lot of fresh & young skilled manpower and they are in turn absorbed by the production units.
- There are few machine manufacturing units for synthetic gem processing. All of them seem to be making technically standardized machinery, components, spares and tools which are compatible to one another. The manufacturing units are at ease to buy the tools and spares from any one and use it.
- The price of machineries, tools and consumables are much less resulting in lesser production cost, is believed.
- The working speed/motion of the workers is very fast.
- The effective working time per labor per day is comparatively more.
- Lesser mind distraction when they are at work.
- The working hours are lengthy and flexible enough to suit the needs.
- The output per labor per day is much higher than any where else it is seen.

China, which was non-existent in the field of man made gems and Cubic Zirconium processing a decade back is now one of the major CZ producers besides India, Korea, Taiwan and Thailand. Their growth in this trade is phenomenal in spite of the fact that they have very meager domestic consumption. Chinese Government has been providing all the necessary facilities and other promotional support through out their development as it does for any other Industry or Trade in China.

The notable observation is that the Government has keen interest in the promotion of this industry:

26. The Government has created a commercial complex "Jewel City" for extensive trading of man made and Cubic Zirconia Gems which homes more than 300 trade establishments. One can buy and sell their gems or any other related products or materials. All the necessary services such as Banking, Post, Telecommunication and consultancy are available in the same Building.

27. Government provides the following infrastructure facilities at concessional rates for those who start manufacturing units.
- Land & Building.
 - Electricity.
 - Water.
28. Tax concessions are provided for the initial few years for all the newly established production units.
29. The labor laws are more transparent and highly flexible.
30. The local Chamber of Commerce for Synthetic Gems processing Industry is also involved in number of promotional activities for the trade and industry. The Chamber organizes meetings and conferences in Jewel City where its office is also based for the local and international businessmen for starting new manufacturing units in China.

Observations on Comparative Techniques:



1. **SLICING:** This process is done with a single saw machine and multiple blade sawing machines. The single saw machine is widely used by all the manufacturers. Few larger manufacturers seem to have developed more accurate multiple saw machines which are very accurate and highly productive.

2. **PREFORMING/PRE-SHAPING:** The machines used by the Chinese manufacturers are capable of calibrating and shaping any size and shape. The accuracy and productivity of this type of machine is very high and it is being put into use to a maximum extent by Chinese

factories.

3. **VIBRATOR POLISH:** the pre-shaped stones of any shape and any size are put in this machine with polishing agents and allowed to vibrate at very high frequency resulting in fine polishing of all the surfaces including the girdle portion of the pre-shaped stones. This process is carried out in stages such as rough finish, medium finish and fine polish of the surface with different grades of Silicone Carbide and other oxides.

4. **FACETING AND POLISHING:** The faceting and polishing is done by indigenously developed machines which are simple derivative of both Israeli and Korean techniques. This machine is used to cut and polish any shapes and any size of Cubic Zirconia and Synthetic corundum pre-shaped stones without altering its size and shapes. The girdle portion of the stone is kept intact.



Recommendation:

- Strong need to have Training Institute at Trichy on basis

- of the Chinese production to generate new labor.
- Government should encourage the growth by allowing concessions on Electricity, Land and Taxation.
- To organize International Trade Fair and Exhibition for Synthetic (Manmade) with emphasis on machinery. State Government's help and support is needed to conduct the same.
- To consider to have Special Synthetic Stones Economic Zones near Trichy Labor Laws to be amended to have a more disciplined labor force.

Shanghai (22nd and 23rd September 2005)



On the morning of 22nd September 2005, the delegation was met by Ms. Sandra, Broadway Exhibition (Shanghai) and her team as instructed by the Consulate General of India, Shanghai. It was a 3-½-hour-drive from Shanghai to XiaoShan (HangZhou) by road to visit the Hang Zhou Hangmin Baitai Jewellery Co Ltd. The delegation was met by Mr. Wu Jian Ming, President who guided the delegation on a factory visit.

Though the prime interest of the delegates was to see the cut & polished diamond factory at Shanghai, the curiosity was heightened to know about the intricacies of manufacturing idols/statues, which were being manufactured at that factory. It was later informed to us that since there were no cutting and polishing factory at Shanghai the Consulate General had arranged for gold jewellery factory at Xiao Shan.

The delegates were allowed to enter each and every department of the factory to have firsthand information on any issue and for better observation of the systems being adopted, etc. The delegates also visited the showroom at the factory, which was open for retailing and wholesale. The President hosted lunch at a nearby hotel for the delegation.



The highlight of the lunch was that they had taken the effort in preparing replicas of non-vegetarian food items using vegetarian products for the Indian delegates and we were informed that the chef had taken 2 days to prepare the ingredients for the presentation of the look alike non vegetarian food. Mr. Naresh Mehta appreciated the effort taken exclusively for the delegates and was very thankful for the warmth of the people in their welcome and hospitality. Deputy Chairman from Zhejiang Jewellery Association and few of the press/media were present during the factory visit and business meetings.



The Consulate General of India hosted a dinner meet at an Indian Restaurant called the "Indian Kitchen" on behalf of The Gem & Jewellery Export Promotion Council for the Shanghai

Trade Associations/Chambers and other trade related organizations that evening to facilitate interaction for the Indian delegation with the important people of the industry at Shanghai. Mr. Sujan R. Chinoy, Consul General, Consulate General of India, Shanghai played host for the evening along with the Indian delegates in inviting the guests. The guest list included the Chairman of Shanghai Gold & Jewellery Trade Association along with his esteemed members who are leading brand names in China. Ms. Caroline Yuan, Director, Shanghai Diamond Exchange was also present for the dinner. Mr. Chinoy spoke about the Indian diamond and gold jewellery industry during the Indian meal which was enjoyed immensely by the guests. Mr. B. Vanlalvawna, Consul and his team was present during the dinner. Mr. Vawna has been instrumental in organizing the whole program at Shanghai for the Indian Delegation. The discussion during the dinner was pertaining to the growth of diamond industry and the need for support from Indian industry for diamond cutting and polishing. Mr. Naresh Mehta thanked the guests for accepting the invitation for the dinner. The evening was spent visiting the local attractions and jewellery stores at Shanghai.

On the 23rd September 2005 morning the delegation visited the Shanghai Diamond Exchange. Ms. Yuan, Director, Shanghai Diamond Exchange welcomed the delegates upon arrival. The visit to Shanghai Diamond Exchange was an eye opener for the delegates in observing the methodology of the working of the Exchange. They felt that though India is leading in



cutting and polishing diamonds a need for a similar structured and organized exchange was the need of the hour. (The procedure and membership details are attached in the report). Mr. Lin Qiang, President, Shanghai Diamond Exchange met the delegates and said that he had been meeting a lot of delegations from India that showed keen interest towards both countries working together in developing this industry. He welcomed the delegates and highlighted the working of the exchange. Few questions/queries raised by the Indian Delegates were answered by him. He also said that he would be in India during the Diamond Conference in November 2005 and was looking forward for more interaction in the future. The delegation was guided through the whole exchange building and we also interacted with members of the exchange.

On the same afternoon, the Shanghai Gold & Jewellery Trade Association organized for a meeting with the delegates along with top officials of the trade association and other trade related bodies. Mr. Naresh Mehta took this opportunity to make a presentation on the mission of the delegation and to share insights on the Indian industry with the members of the Association/Press/Media. Mr. Vawna, Consul, Consulate General of India also participated in the meeting. During the presentation "India Your First Choice" was screened for the benefit of the members, which evoked appreciation from the members. Mr. Mehta explained about the need for cooperation between the two countries in this Industry and assured them of all coordination from the Indian side. He also invited them to participate / visit IJS 2006 to know more about the Indian Industry.

He thanked the Trade Members/Press and others for the warm welcome given to the delegates and for the useful interaction with their members.

The delegation left Shanghai for Hong Kong the same evening and arrived in Hong Kong after a 2-hour flight.

➤ Hong Kong (24th and 25th September 2005)



The delegates from Wuzhou (4 from synthetic stones) who had stayed back joined the others at Hong Kong Panda Hotel as per schedule. The delegates visited the Hong Kong Jewellery & Watch Fair 2005 at the Hong Kong Convention Center. The delegates had meeting during the day with the following associations in Hong Kong as part of the schedule to interact with the trade and to know more about the industry operations in Hong Kong. The schedule and list of contact persons is enclosed for reference.

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- The Hong Kong Jewellery Manufacturers Association & the Gemological Association of Hong Kong Ltd
- The Diamond Federation of Hong Kong
- The Hong Kong & Kowloon Jade Merchants Union Association
- Hong Kong Gemstones Manufacturers Association
 - Hong Kong Jewellery & Jade Manufacturers Association



The delegation was invited for the 40th Anniversary Charity Banquet organized by the Council of Management of Hong Kong Jewellery & Jade Manufacturers Association at the Grand Hyatt Hotel. The delegates were given a warm welcome at the banquet by the Association President Mr. Charles Chan and the delegates made a lot of useful contacts during the dinner.

The next day the Mumbai Group left for India, a few others visited the Fair again and later left for India.



- Review on China Gem & Jewellery Market



China is definitely emerging as India's arch rival and the Indian Market has to wake up and compete healthily to enjoy its dominant position in the world's cut and polished diamond market. According to many experts, China will become the World's leading jewellery consumer and processor by 2010 spurred by its growing power

tariff cuts and the liberalization of the market. China's jewellery market has been growing annually at over 8% from the 1980s and it has become one of the few countries exceeding US \$10 billion in domestic consumption. In 2001, China's domestic market for Jewellery posted a record high of 80 billion Yuan (US\$9.64 billion) while exporting US\$2.53 billion in jewellery. In 2002, gold consumption reached roughly 250 tons, making China the fourth largest country in gold jewellery consumption. In platinum consumption, China has overtaken Japan as the market leader. Presently, over 52 percent of Platinum Jewellery in the world is made in China. China also occupies 1.8% of the world's diamond market share. Annual sales of pearl and precious stones amount to 20 billion Yuan (US\$24 billion). With an average growth of over 6%, China's jewellery market is predicted to surpass 180 billion Yuan (US\$21.7 billion) in 2010, accounting for 10% of the world's market.



A comparison of statistics of the diamond industry of the two countries reveals that China still has a long way to go while India processes 120 million carats of diamonds a year, compared to China's 2.4 million carats, which translated into diamond sales of just \$740 million. China also has only about 10,000 diamond cutting and processing units, compared to India's 800,000 to 1 million. China has about 25,000 people working in the industry, compared to India's well over a million. However, China has the advantage of disciplined labor, coupled with an impressive quality of workmanship. Looking at the potential in China, De Beers, the South African conglomerate, has been busy in developing the Chinese market since 1997.

- China is gradually expanding and gaining its share of the diamond processing pie that India enjoyed, with increasing numbers of diamond processors from Israel and Belgium, and even India, setting up bases in China, for a variety of reasons, which include:
- A less expensive and more disciplined labor force.
- China's economic growth is continuing, and the number of wealthier consumers within the country is rising, while India has to rely almost solely on exports.
- A multinational giant like De Beers, the world's largest supplier of rough diamonds, is increasingly favoring China in order to reduce its dependence on India.



- The quality of Chinese workmanship is steadily improving. Policies such as single window clearance largely favor foreign businessmen.
- A structured and high quality infrastructure and a conducive investor friendly climate.

Chinese Market and its potential attraction for the Indian Market:

- First, jewellery is traditionally a luxury item of consumption, and demand for jewellery is highly elastic to income. As China's per capita disposable income rises, jewellery, after real estates and automobiles, has emerged as the third hottest item of consumption in recent times.
- Second, the appeal for jewellery is the highest among younger consumer sections. China's young working age population is quite high. There is also a large demand from the matrimonial market. Every year, about 18-22 million people in China get married. Total annual wedding expenses in China are estimated at 250 billion RMB (about US\$ 30.5 billion). Even if one tenth of that is used for jewellery consumption, the figure is a high 25 billion RMB (about US\$3.1 billion). The younger consumer section is also fashion conscious and the rate of design obsolescence is fast, thereby helping innovation and sales. The high growth of diamond and platinum jewellery witnessed in the Chinese market after the initial rush for gold in the 1980s can be attributed to the desire for new and trendy ornaments among the younger consumers. According to consumer research of DTC a subsidiary of the De Beers Group, three out of four brides in Beijing and Shanghai expect their husbands to buy them diamond wedding rings. Wedding rings account for one-third of all diamond sales in China.
- Third, foreign tourists in China are also one of the major categories adding to jewellery demand in China. Every year, over 30 million travelers from all around the world visit China and it has been estimated that their annual spending on Chinese jewellery is over 10 billion RMB (over US\$1.2 billion). As China brand becomes popular overseas, especially in traditional areas of Chinese strength like jadeite, jade ornaments and pearls, as well as new areas like diamond processing, the demand in these segments would only grow.
- Fourth, as China's GDP and per capita income increases, a part of the consumer class has started using jewellery items of domestic use, for instance gold and silver cutlery and decorative items. Due to a combination of all these factors, it is predicted by industry sources that by 2010, China's jewellery consumption, at the existing rate of growth, will exceed US\$35 billion, making China the second largest consumer nation in the world.
- China occupies 1.8% of the world's diamond market share. Shanghai accounts for one-fifth of China's total diamond consumption.
- Shanghai is moving towards becoming one of the world's top diamond jewellery markets, registering a 40% annual growth in the last four years.
- Business turnover in diamond trading reported a 39% rise year-on-year to US\$80.8 million during the first quarter of 2004 at the SDE.

- The import volume lags far behind consumer demand for diamonds products in China. Diamond smuggling is still a widespread problem. The large percentage of imported diamonds used for ornament making indicates China's demand for diamonds remains brisk.

Since 1993, China's diamond retailing business has made rapid progress. China's economic growth in the 1990's and a large population base of 1.3 billion has attracted the worlds attention, and a number of international brands have wasted no time opening up retail outlets in major cities like Beijing, Shanghai and Guangzhou.

Most prominent have been businesses from Hong Kong and Taiwan, with all famous gems and jewellery business in Hong Kong have shifted their strategic nerve-centre towards the Chinese mainland. Four Hong Kong jewellers, namely Chow Tai Fook, Tse Sui Luen (TSL) jewellery, Chow San San and Luk Fook Holdings, rank among the top 10 diamond jewellery brands in China, according to an industry magazine Gold Jewellery

Areas of focus for India other than exports:

- Manufacturers can start their manufacturing units in China to capitalize on the above factors. Already many Indian diamond companies have their presence in China. The Jewellery Industrial Park at Panyu can be an option to consider since there will be availability of skilled labor.
- Shanghai Diamond Exchange policy can be taken as an advantage for the Indian Diamond Exporters in supplying cut and polished diamond to its members.
- Better infrastructure like airports, road ways, continuous support of the Government.

China's membership in the world trade organization and more importantly the imminent deregulation of the national gold trade are set to bring about further growth in the jewellery industry in the country, boosting the manufacturing and export sectors. The Government's new liberalization measures will remove the monopoly on gold trading held by the People's Bank of China and abolish a licensing system for gold-related enterprises, encouraging more jewellery companies to manufacture here boosting demand for diamonds, colored gemstones, pearls and machinery.

Incentives for export includes tax free imports of gemstones set in Jewellery for export as well as a 17% rebate on value added tax for polished diamonds set in jewellery for export. In addition, de regulation of the diamond market through a diamond exchange, allows industry enterprises to apply for membership and to sell their polished diamonds at factories in China to local companies through the exchange. There is no import duty on polished diamonds and rough diamonds handled by members of the exchange.

Achievements of the Delegation

The Delegation was able to study the market in China closely for Indian products and the results of the study are certainly very encouraging. The gem & jewellery industry was looking at China as a potential threat all along, but the delegation's visit has proved it wrong in observing that China is the future destination for exports and investment. The visit has given tremendous information on the market, trends, consumption, retailing pattern in China. Visiting the Shenzhen and Hong Kong fair has given an extremely comprehensive view for the delegation.

The most important accomplishment has been observing the factory setups particularly in synthetic stones industry. The new-age machinery and equipment, advantage of the disciplined labor and the very high productivity levels of labor has been an eye opener. If steps are taken in the right direction, it certainly could be a win-win situation for both India and China in conquering the world market.

China Vs. India

- India and China have had 3000 years of shared history.
- Indian reforms started in 1991 while China's started in 1978.
- China's exports rose to 593. Billion US\$ in 2004 and India's exports were 69.18 billion US\$.
- China's GDP is 1.4 trillion US\$ thrice of India's GDP.
- China is the second largest economy whereas India is fourth.
- China's share in trade in Asia is 23% while India's is 2.90%.
- China's strategy - excellent world class infrastructure, quality power, highways, ports & airports.
- Low level taxation.
- Import tariff in single digit - India it is still 15% to 20%

May be its really time to put on our thinking caps and rethink why India is still far behind in these areas when compared to China.



- Observations
 - Remarkable progress in the field of infrastructure development in the recent past has been the greatest achievement of China.
 - Population has not been a problem in the progress of China and in fact has been positive/advantage factor in the growth. China has other reason and need to reduce trade dependence on USA.
 - India has huge investment opportunities to Chinese companies. China has transformed from a centrally planned economic system to an increasingly market oriented economy.
 - It is observed that China is the third largest trading economy.
 - The country's communist policy and leaders suddenly surprised the world in

relaxing Yuan's decade old peg to the US dollar making it flexibility in the exchange market.

- Trade between the two countries is growing at a rate of 40% a year over the past three years.
- Best practices, field marketing research are the latest trends setting up in China well accepted in USA and Europe.

Diamond Industry:

- Demand for diamond is increasing. A
- To present 200,000 people engaged in the diamond industry. Consumption is estimated over US\$ 2billion.
- Diamond smuggling is still a problem.
- China is definitely a challenge to India.
- Many diamond cutting and polishing companies have their factories in China attracted by their policy, approach and facilities offered by them. Still they lack the touch of Indian artisan and skill to compete with Indians now. The question of "now" is the million dollar question.

Jewellery Industry:

- China will become the third largest consumers of gold in the world. There will be 1200 enterprises engaged in processing of gold jewellery apart from 2million workforce.
- In 2002 gold market opened up in China. Demand will increase and Indian companies have an opportunity to exploit the demand for gold jewellery.
- China is ahead in plain gold jewellery.
- The labor comparatively is not cheap but has a disciplined work pattern and much more productive.
- Hong Kong is THE advantage for the jewellery units in China which is the gateway to the world. Hong Kong is the studded jewellery manufacturing and export center.

Synthetic Stones:

- Has tremendous growth and has grown to this level because of sheer determination of will power of the localities in Wuzhou. It is believed 60% of the worlds synthetic stones are supplied from Wuzhou.
- Progressive local government, supportive trades are the advantages for this industry.
- India lacking away behind both in terms of technology and skilled man power.



- Recommendation
 - Indian companies to have more interaction/visits to China to understand their approach of management/implementation better and better to inculcate in their individual companies.
 - To visit more jewellery fairs in China.
 - To work out strategy in supplying cut and polished diamonds to the Shanghai Diamond Exchange members
 - The Council can participate in the China fairs to study the growing market as well as displaying the Indian products
 - Highly recommended for investing in China at Wuzhou and Panyu.
 - To look at China as a potential market than a threat to Indian products.
 - To consider the recommendation given for improvement of Synthetic Stones Industry in Trichy.

The biggest hurdle to enter Chinese market would be the 17% VAT which accordingly to the industry sources will be phased out in the future paving way for more bilateral trade between the countries. The biggest advantage for Indians is the ability to speak, read and write "English" since Chinese are far behind in speaking good English.

"India and China comprise 40% of the world population, if these two nations work together, then we have an economic entity that can run over any superpower in the world".... Economic Times Special Issue (Oct 2005)



- Other Useful Information

Working of Shanghai Diamond Exchange

The Shanghai Diamond Exchange (SDE) is located in the Jin Mao Tower, Pu Dong, and Shanghai which is the highest building of China. It covers an area of 5422 sq.mtrs occupying the building's two floors. It is a state level production unit set up in the Pudong New Area of Shanghai authorized by the State Council of PRC. Besides the transaction Hall with matching facilities, government institutions include Customs office, Foreign Exchange office, Industry & Commerce Office etc. providing a "one-stop" service in joint administration quarter of SDE. Many organizations covering banking, insurance, security escort and diamond grading provide relevant services within the premises. SDE also offers over one hundred high-level business offices for its members to rent. SDE is equipped with convenient communication and network system and sound facilities for fire control, monitoring and security. Presently, 125 companies are registered at SDE with 50-55 companies actively trading at any point of time.

The requirements for membership at SDE are as follows:

- The applicant shall be a diamond enterprise duly registered in PRC and enjoy independent legal entity status.
- The applicant shall have at least three years of experience either domestically or internationally in diamond business.
- The applicant shall have good business credit
- The applicant shall be recommended by two full members
- The applicant shall accept the constitution of SDE and abide by the regulations of SDE.

Other requirements for membership of SDE:

- Application Fee for Membership: US\$1500
- Required registered capital: US\$200000
- Rent of space at the exchange: US\$ 1.5 per day per sq.mtrs.
- Application for membership to be made to Shanghai Diamond Exchange
- Application for appointing legal representative to be made to Shanghai Municipal Diamond Office.

Authorized activities at SDE are:

- Import / Export right
- Trading with the SDE
- Process other Trading

Latest Policy on Import & Export rights for overseas members of SDE

Authorized by the Ministry of Foreign Trade and Economic Cooperation, Shanghai Diamond Exchange Administration has started to process applications of diamond import & export rights for overseas members of SDE.

1. Requirements

To qualify for the diamond import & export rights, overseas members of SDE shall meet the following requirements:

Own an enterprise registered inside SDE

Apply the diamond import & export rights only in diamond-related (including rough diamond, polished diamond and diamond jewellery without gold and silver) business.

Go through the import & export declaration procedures with SDE customs

2. Application materials required

For overseas members who have finished enterprise registration procedures

13. Application form for diamond import & export rights (downloadable at www.sdea.gov.cn/application_form.zip)
14. Declaration (downloadable at www.sdea.gov.cn/declaration.zip)
15. Certificate for full payment of registered capital

For Overseas members who have not finished enterprise registration procedures (Application procedures for diamond import & export rights shall go along with enterprise registration procedures)

16. Application form for diamond import & export rights
17. Declaration (downloadable at www.sdea.gov.cn/2_declaration.zip)
18. Other materials required for enterprise registration

Persons to Contact

Mr. Chen Zhong or Ms. Shen Xue-mei (0086-21-50499988)

► Relevant policies applied for SDE

Import & Export and Customs supervision policy

Diamonds (including rough diamond & unset polished diamond) imported and exported in the name of normal trade is required to go through the declaration formalities with the customs located inside the Shanghai Diamond Exchange (SDE). Diamond import and export are required to finish related formalities according to prevailing policies. If diamonds imported in the name of processing trade is to be sold in the domestic market, it is required that the diamond shall be sent to SDE for transaction or filing. Diamonds flowing between SDE and overseas are only required to be registered and filed with the customs inside SDE. Diamonds flowing between SDE and areas inside China but outside SDE are required to finish the customs declaration formalities. Diamond from inside SDE entrusted to be processed by enterprises established in Bonded Zone or Export Processing Area shall be under tariff-free customs supervision. If the diamonds are to be processed by enterprise outside Bonded Zone or Export Processing Area, related formalities shall be finished according to current trade policy.

Taxation Policy

Diamonds directly entering SDE from overseas are exempted from import duty, value-added tax and consumption tax. Diamonds traded in SDE are exempted from value added tax. Diamonds entering SDE from domestic market can also enjoy tax-refund. The tax collected at the processing stage shall be fully refunded when the diamonds are finally exported. Imported diamonds flowing from SDE to the domestic market, no import duty is levied but value added tax of 17% is applicable. Consumption tax will be collected only at the time of retailing and the consumption tax for unset polished

diamond and diamond jewellery is to be collected at a reduced rate of 5%.

Foreign Exchange Policy

After approval from foreign exchange administration, members of SDE can open a foreign exchange account for the exclusive use in diamond transaction. Foreign exchange payment & collection on diamond transaction by members registered in SDE or by members registered outside SDE but inside China shall be done through a special foreign exchange account. Diamond transaction between members and enterprises outside SDE but inside China is treated as diamond import by the later, who is required to finish related formalities. If members registered in RMB have no foreign exchange or no sufficient foreign exchange, they can apply to purchase foreign exchange to initiate business. The purchased foreign exchange shall be transferred to the special foreign exchange account for diamond trading only. Diamond transaction between members, between member and overseas enterprise, between member and enterprise located in Bonded Zone or Export Processing Area or other areas inside China but inside China but outside SDE shall be settled in foreign currency.

Shareholders of Shanghai Diamond Exchange Co.Ltd

19. China National Arts & Crafts Imp. & Exp.Corp. Shanghai Lujiazui Development (Group) Company Limited. Hong Kong Brilliheng Holdings Co Ltd.
20. Shanghai Arts & Crafts Imp.&Exp.Co.Ltd
21. Lao Feng Xiang Co., Ltd
22. Shanghai Yuyuan tourist mart Co., Ltd
23. Shandong Arts & Crafts Imp.&Exp.(Group) Co., Ltd. Sino-Diamond Gem & Jewellery investment Co., Ltd.

Import duties for gems & jewellery sector for PRC:

HS Code	Description of Goods	MFN (%)	Gen (%)	VAT(%)
71.01	Pearls, natural or cultured, whether or not worked or graded but not strung, mounted or set; upgraded pearls, natural or cultured, temporarily strung for convenience of transport	21	100 to 130	17
71.02	Diamonds, whether or not worked, but not mounted or set	0 to 8	14 to 35	17
71.03	Precious Stones (other than diamonds and semi precious stones, whether or not worked or graded but not strung, mounted or set; upgraded precious stones (other than diamonds) and semi precious stones, temporarily strung for convenience of transport	3 to 8	2.8 to 7	17
71.04	Synthetic or reconstructed precious or semiprecious stones,	0 to 8	14 to	17

	whether or not worked or graded but not strung, mounted or set; upgraded synthetic or reconstructed precious or semi precious stones, temporarily strung for convenience of transport		35	
71.06	Silver (including silver plated with gold or platinum), unwrought or in semi manufactured forms, or in powder form	0	0 to 50	17
71.13	Articles of Jewellery and parts thereof, or precious metal or of metal clad with precious metal	23.3 to 35	130	17
71.14	Articles of goldsmiths' or silversmiths' wares and parts thereof, of precious metal or metal clad with precious metal	35	100	17
71.16	Articles of natural or cultured pearls, precious or semi precious stones (natural, synthetic or reconstructed)	35	130	17
(Duty figs at MFN column applicable to Indian Exporters)				

Travel Tips:

The travel provider for the entire trip was M/s. SOTC, Chennai. Their services included air tickets, hotels, airport transfers etc. The Council organized for the intercity travel and interpreter at all the cities. The currency is RMB (Yuan) = 1US\$ = RMB. 8.00 (INR-5.5). Visa is required for Indian citizens. Knowing Chinese words for important words is better.