

CoverStory

UAE's new-found trade shines

DUBAI TO HOST DIAMOND CONFERENCE IN MARCH TO FOCUS ON SHIFT FROM WEST TO EAST

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Centuries after the Silk Route connected Asia, Europe and Africa, now there is a new Silk Route and it is built of tiny but dazzling stones — diamonds. And claiming a place at the heart of this new trade route, alongside Antwerp, New York and Mumbai, is the Middle Eastern emirate of Dubai, that saw its diamond trade reach a record high of \$39 billion in 2011.

Ahmed bin Sulayem, executive chairman of Dubai Multi Commodities Centre (DMCC), the organization that facilitates the flow of commodity trade, sums up the situation in the past and today.

Before 2002, Sulayem says Dubai was known as the Gold Souk (market) and the diamond trade was insignificant. Then DMCC was established and began working as an interface between diamond traders and manufacturers as well as buyers and retailers of the finished goods. In 2009, the diamond trade jumped to \$18 billion. By 2010, it was more than \$35 billion. At present, diamonds constitute over 50 percent of Dubai's jewelry trade.

Last year, the emirate's trade in rough diamonds increased by 23 percent. While India was its top importing trade partner, its top export markets were Switzerland, India, and Hong Kong.

"Diamonds are an area of focus for the UAE," says Peter Meeus, chairman of Dubai Diamond Exchange



Lebanese singer Elissa models a diamond necklace during a promotional campaign in Dubai. Once known as the Gold Souk, today diamonds constitute over 50 percent of Dubai's jewelry trade.

(DDE), a subsidiary of DMCC. "Dubai's strong leadership and vision has enabled the emirate to quickly transform itself into a key link in the global transport and distribution system."

Meeus attributes Dubai's rise as a diamond trade hub to the building and enhancing of physical and financial infrastructure, products and services, including the launch of

DDE and the Dubai Gold and Commodities Exchange, and regulations. What make the emirate an especially attractive place for international diamond traders are the seamless licensing processes for companies and zero taxation, which helps prices to be highly competitive.

"Our aim is to launch new initiatives for our members and industry participants," Meeus tells *China Dai-*

ly Asia Weekly. "Such as the inaugural Dubai Diamond Conference."

The two-day conference from March 18 will bring leading diamond cutters, industry experts and trade members together in Dubai to discuss key issues, challenges and opportunities in the global and regional diamond sector.

With the focus of the world diamond trade shifting to Africa, the Middle East, India and China, Meeus says the conference will discuss the opportunities arising from this shift and how to manage them and further cement relationships between international market participants. It also seeks to be a platform for building relationships between companies and governments in producing and consumer countries, with a focus on the role the Middle East plays along the trade route for diamonds.

The keynote speech will be delivered by Welile Nhlapo, Kimberly Process chair ambassador.

The Kimberley Process Certification Scheme was established in 2003 to ensure that "diamond purchases were not financing violence by rebel movements and their allies seeking to undermine legitimate governments."

While India remains Dubai's top trading partner, accounting for 32 percent of the overall diamond trade, Dubai has been assiduously courting the other giant economy in the region, China.

"China is a very important market for the industry, both as consuming country and critical portion of the supply chain," Meeus says. "The large

Chinese population has created a significant consumer market for diamonds, with considerable demand for high-end luxury jewellery.

"On the supply chain side, Shanghai is a significant diamond center that is home to a large swath of diamond cutters and polishers. DMCC greatly values its relationships with members of the Chinese diamond industry and understanding the importance of 'the new Silk Route' is keen to deepen and build upon those relationships."

The year 2008 saw significant efforts to forge closer diamond ties between the UAE and China. Sheikh Mohammed bin Rashid Al Maktoum, vice-president and prime minister of UAE and ruler of Dubai, visited China and in line with the visit, DMCC and the local government of China's Panyu district in Guangzhou province signed a memorandum of understanding (MOU) for the promotion of bilateral jewelry trade, especially diamonds and colored stones.

A month after the April visit, DMCC and the Gems and Jewelry Trade Association of China signed another MOU for the promotion of bilateral diamond and jewelry trade. Towards the end of the year, DMCC hosted the first Middle East-China Diamond and Jewellery Summit, that saw over 850 global traders and jewelry retailers participate.

In 2009, a high-profile government and trade delegation from Shenzhen visited Dubai to discuss bilateral trade, especially in diamonds, pearls and colored stones.

Jewels: Industry in the midst of change

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But now with a new leadership in China, he says there is a positive sentiment in the market. "When the new leaders assume power in March, it is expected that they are going to stimulate the economy by introducing positive measures and easier monetary policy. There is already a slight improvement and I am cautiously optimistic."

Ma is more bullish. "We have very positive expectations for 2013," the DFHK president says. "In 2010, the production of diamonds slowed as traders were working off excess inventories in 2009. Then in 2011, there was a sharp price hike. While the smaller stones (1 carat and less) became pricier by 10 to 15 percent, the larger ones (3 carats and more) became 20 to 50 percent costlier. Trade through Hong Kong in 2012

came down by 10 to 11 percent. Hong Kong imported diamonds worth HK\$128 billion (\$16.5 billion), about 3 percent less than 2011.

"But in the last few months, there has been a pickup in the retail level in Hong Kong and the Chinese mainland. With prices stabilizing, this year we expect low double-digit growth."

However, along with the expected growth, the industry will have to contend with some challenges.

"The diamond industry is in the midst of great changes," says GIA's Shor. "First, the rough diamond distribution is evolving from a situation where one company, Luxembourg-headquartered De Beers, controlled most of the rough diamonds, to one where rough diamonds are supplied by several large companies (De Beers, Russia's Alrosa, and British-Australian Rio Tinto and BHP), which are in competition with one another.

"In the future, however, smaller mining companies will control a much larger share of diamond production, which will lead to changes in pricing and distribution. This probably will force many changes in how diamond cutting companies do business."

Shor also foresees the diamond industry banks becoming much stricter in lending to the industry: "So companies will have to have more operating cash, lower debts and lower inventories, which will also change the way they do business in the future."

With China becoming the pivot of the trade, the industry needs to groom the Chinese buyer.

"The Chinese market is still immature," says Zion. "However, it is progressing at a rapid rate as buyers begin to appreciate jewelry more and more."

Recognizing the critically important role China plays in the future of the diamond industry, GIA operates two full-time schools in Hong Kong and Taiwan, and has conducted classes in Shanghai, Beijing and Shenzhen.

"These classes offer a comprehensive curriculum covering nearly every part of the jewelry industry — diamond grading, gemstone identification and pearl grading," Shor says.

In 2011, GIA launched a simplified Chinese website. "Not surprisingly, China has been one of the leading sources of GIA's web traffic," he says.

While there are high expectations of 2013, a successful or unsuccessful Year of the Snake however will not shake the reputation of diamonds as an investor's best friend.

"With diamonds, you have to look at the long-time horizon," says Ma.

"The price of the diamond you buy today will be higher in five to 10 years."

"In the last three years, there has been no significant new discovery (of diamond mines). So the demand-supply factor will affect prices."

The most decisive determinant for investors will remain the mobility element.

"Diamonds are a very good hedge," says Zion. "They are very easily transportable and involve a large amount of money."

"In times of political turmoil or economic uncertainty, diamonds provide a safe haven. You can't take your apartment with you, or your art collection, or your 2,000 kilograms of gold."

"But you can stash a few diamonds in your pocket and a 10 carat stone will fetch you between \$1 million and \$2 million."