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Hong Kong Diamond Trade Set For Further China-Driven Growth

Q&A with Lawrence Ma, president of the Diamond Federation of Hong Kong, China and CEO of Lee Heng Diamond Group

Oct 26, 2014 4:05 AM By Rapaport News

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RAPAPORT... The Diamond Federation of Hong Kong is the umbrella organization for Hong Kong's diamond industry. Its long-serving president Lawrence Ma spoke with Rapaport News at the recent September Hong Kong Jewellery and Gem Fair, prior to the recent political protests in the city, to discuss the state of the market and prospects for the local diamond industry moving forward:

Rapaport News: What is the background and function of the Diamond Federation of Hong Kong?

LM: Historically, there were two associations related to the diamond industry in Hong Kong – the Diamond Importers Association and the Hong Kong Diamond Bourse.

The importers association was inaugurated in 1957 to protect the interests of the diamond industry, to negotiate with the government, communicate with external parties, and promote diamond consumption. Membership was initially quite strict and you had to prove that you imported a certain amount of diamonds and had a minimum turnover. In the 1970s, the retailers who were buying directly from the association's members requested to join as retail associate members. The Hong Kong Diamond Bourse was established in the mid-1980s. Since Hong Kong is a trading hub, there was a feeling that we needed to have a bourse like other diamond centers.

However, following the 1997 financial crisis, most members found they belonged to both associations and so we decided to consolidate. By 2000, we merged into the Diamond Federation of Hong Kong. The federation has three types of members accommodating the different sectors active in the local industry. Our members include diamond manufacturers, diamond importers and wholesalers, and jewelry retailers.



Hong Kong remains a free port; there's no import duty or sales tax, and customs is relatively simple. That's how Hong Kong became a strong diamond trading hub very early on.

Also, around 2000 the Shanghai Diamond Exchange was established. Some of us were involved in the establishment and we remain foreign shareholders there. The Hong Kong and Shanghai diamond exchanges work very closely with each other, so as China's diamond industry grew it benefitted the whole region including Hong Kong.

Rapaport News: Is the bourse still functional?

LM: Yes, but we don't trade at all. It is really a place for members to meet and convene meetings.

Rapaport News: How many members do you have in each category?

LM: We currently have around 370 members. There are around 50 to 60 import/wholesale members. There are 10 or fewer manufacturers and about 40 to 50 individual retail members. However, since every retail location is an associate member, in all, total membership is around 370.

Rapaport News: What is the extent of polished diamond trading activity taking place in Hong Kong?

LM: In 2013, Hong Kong imported about \$18 billion (HKD 140 billion) worth of polished diamonds, and it re-exported about \$12 billion (HKD 94 billion) worth. So, altogether, we have approximately \$30 billion (HKD 234 billion) worth of diamonds going in and out.

Rapaport News: The data implies that Hong Kong is a net importer of diamonds, absorbing more than \$6 billion worth a year. What happens to those diamonds?

LM: Part of it is consumed. The other part is probably sold to Asian customers who might export unofficially. There is an accumulation of polished inventory because all of the major diamond players have offices in Hong Kong.

They stock their merchandise in Hong Kong for a few simple reasons. Firstly, there is no duty here so if you need the diamond somewhere else you can ship it within 24 hours through a courier, so Hong Kong is a very convenient place from which to manage your inventory. Secondly, Hong Kong is a relatively safe place and insurance is very cheap here. Thirdly, it is a really good trading hub. It's so close to China, so if there is money in China they can easily ship to Shanghai, the rest of Asia, India or New York.

Rapaport News: How is the Hong Kong diamond market navigating the apparent economic slowdown in China?

LM: Growth in the region has slowed but I wouldn't say that business has declined. Instead of growing 5 percent to 10 percent, it is now probably growing at around 2 percent to 3 percent. Imports into Hong Kong grew by 9 percent and re-exports rose 16 percent in the first six months of this year. These numbers really show that the market functions well here.

Everybody talks about a slowdown in China. It is true that less is being sold in the high end but there is still very good turnover of 1-carat and smaller diamonds because there is still good mass market demand in China for these goods. Every year there are around 17 million couples getting married in China. Not all of them buy diamonds but if 30 percent to 40 percent buy a diamond, you're talking about 2 to 3 million diamonds, which is pretty substantial.

Rapaport News: What has caused the slowdown in the very high end?

LM: Spending at the very high end has slowed because of the anti-corruption measures whereby the government is discouraging people from being extravagant.

There are many government agencies and state-owned companies in China, which are encouraged to be frugal and have cut down on luxury spending. Gifting has declined and diamond jewelry was among the gift items, especially for larger, more expensive items.

Gifting is normal in China as it is in other developing countries. Some corporations and government agencies will present a gift to their employees, like a gift certificate at a department store. If it is a \$20,000 gift certificate, the person might buy a diamond ring for his wife.

Rapaport News: Has the government push toward consumerism in China affected the trade?

LM: In the past four to five years, the government encouraged consumption because they realized that the economy was too dependent on exports. Until three to four years ago, exports accounted for about 30 percent to 40 percent of gross domestic product (GDP), while consumption was around 20 percent to 25 percent and government expenditure was another 20 percent to 25 percent. Investment was 10 percent to 15 percent. Investment has increased in the last decade but they want consumption to be the major factor so the economy can become more self-sufficient.

That should have a positive impact on the diamond and jewelry industry but things shouldn't move too fast. You have to find the right thing to do, and the right way of doing it.

Rapaport News: How is current liquidity in China's diamond market?

LM: Things have been tight, especially between April and August. I think liquidity has eased in the last month. Even within the diamond industry there were reports of slow payment to suppliers, but since August the situation has changed for the better.

Rapaport News: In that context, how was the September Hong Kong show?

LM: Exhibitors came with low expectations, but after two or three days they realized there were more visitors than anticipated. The September show is becoming increasingly important. Even if buyers have smaller budgets, they would rather come to this show than go to two or three other shows because they have more choices and meet more suppliers here.

Demand is there and people have money to spend. People are entertaining less at the very high end, but middle-income people still have money to spend. For example, the high-end restaurants are half-empty but the restaurants that cater to middle-income people are all full. The same thing is true for diamonds. This is also a good year for marriage according to the Chinese calendar and there are a lot of weddings taking place. So there is good demand for diamond jewelry and engagement rings. Retailers just need to do the right thing and they will see consumers coming to the store to spend.

Rapaport News: What differentiates Hong Kong from other centers given the emergence of new hubs such as Dubai and Botswana that are challenging the more traditional centers?

LM: Hong Kong has many things going for it in addition to its favorable tax policies. Its location is really in the heart of Asia. Its legal system is probably the simplest in the world and it is easy to set up a company in Hong Kong. The banking system really supports the diamond industry because money transfers are very efficient. It is also relatively safe here and the people are very professional.

In addition, Hong Kong has a huge jewelry manufacturing facility just across the border in southern China, in Guangdong. All the Southeast Asian jewelers come in some way to Hong Kong to do their merchandising.

I am seeing a lot of potential in Dubai as well. Of course, Dubai probably has a lot of Indian and local Arab participants to distribute to the Arab World and the Middle East.

Rapaport News: Does that encroach upon your space? Is there competition between Hong Kong and Dubai?

LM: I think the two exchanges complement each other. I see that the biggest growth in diamond trade flows is through Dubai. Many of the big Indian companies set up there because Dubai is a lot simpler than Mumbai in terms of the legal system and taxation.

Shanghai is also becoming very important and Shanghai and Hong Kong are the twin engines of the Chinese diamond market. It's like Los Angeles and New York. You need two to really push and pull. They serve different purposes.

Rapaport News: How do you see Hong Kong's diamond industry progressing in the next five to ten years?

LM: I think Hong Kong will attract more talent from the rest of the world and also from China. I don't believe that Hong Kong's fundamentals will change. People have become more sensitive politically, but we have always been very pragmatic in spirit. We typically work hard and play hard with a can-do attitude.

I fundamentally trust that China's economy will become even bigger and better in five to ten years, and Hong Kong will definitely benefit from this. Hong Kong is contributing in a significant and positive way to this development.