Comparative socio-economic analysis of the jewelry market development in Russia and China.

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The Problem

- The jewellery producing branch is presented as in Russia, and China and reflects national traditions.

- However, jewels of higher price categories made of precious metals and jewels, and best-selling in the world market, are produced in bigger volume in China rather than in Russia.

- China is one of the world leaders among such manufacturers, occupying about 6 % of world production of gold jewels while the share of Russia less than 1 %.
THE PROBLEM: Russia’s and China presence in the gems and jewelry value chain

Although we may say that both Russia and China represent what might be called “authoritarian capitalism” [Dicken P., 2011] the differences are significant, and jewelry sector is no exception here. To start with, let us draw our attention to the figures, demonstrates Russia’s and China’s presence in the gems and jewelry value chain [Source: KPMG Jewelry market report, 2010]. Both Russia and China, as follows from two figures, are rich in resources necessary to engage in jewelry sector, but these tabs immediately drags our attention to the dramatic difference between two countries in the fabrication and consumption aspects. In Russia there is none (or it would be better to say - next to none), in China it is tremendous from the point of world positions.
WE PUT FORWARD TWO HYPOTHESES WHICH BASICLY EXPLAIN THE DIFFERENCE OBSERVED:

- Domestic policies, undertaken by Russian and Chinese Government are significantly different and impulse different reaction from the market side.
- The Organizational Structure of the jewelry firms in Russia and China is different, what sets differently directed industry development courses in the countries under review.

IN MY PRESENTATION I WILL TRY TO DESCRIBE THE SITUATION ON THESE TWO FIELDS
Presentation Data

- Individual in-depth interviews data. Provided during 2010-2011 in the process of preparing data for the post-graduate thesis with the owners/ top-managers of the jewelry producing companies in Russia.
- Additionally, for understanding the organizational structure of Chinese jewelry producing firms, have been made 7 individual in-depth interviews with Chinese company owners (Interviews have been provided in Moscow, during the International Exhibition Junwex Moscow held from September, 7 21, 2011)
- Statistical data on Russian Jewelry market, collected from RisJuvelirExpert (organization, specialized in producing statistical data on the Russian jewelry market)
- Statistical data on the China jewelry market, collected from the National Bureau of Statistics
Domestic policies that affect jewelry markets in Russia and China (1 MEASURES)

IN CHINA, during last 10 years, there is a detailed regulations on:
- the exploration of gold
- sale of fine gold products
- appellations and signs of gems and jewelleries
- purity import and export management and revenue of precious metals
- protection of traditional techniques and qualifications of gem inspectors

Chinese government has recently imposed domestic tax on the gem market (5% - 10%) which will be a huge challenge in the years to come.

Jewelry was one of the markets China first opened after its formal entry into the World Trade Organization (WTO) in 2002.

RUSSIAN legislation allows the scheme, when up to 40% of jewellery is imported by the Russian enterprises after various patterns from abroad and certified as proprietary product.

Russian federal law “On Precious Metals and Precious Stones.” was passed in 1998 and gave the right to private enterprises to work in the industry of precious metals and gems and legalized private ownership of precious metals and gems. The notorious tolling permitted "shifty" jewellery companies to save the trouble of open smuggling and quite easily and legally simulate imported goods as their own.
Domestic policies that affect jewelry markets in Russia and China (2 RESULTS)

- Measures undertaken by CHINESE government helped the country play an increasingly significant role in the international jewelry trade.
- After regulation changings, most Chinese jewellery manufacturers have proclaimed a course on manufacture branded products based on a quality assurance («Without fakes!») and innovations (unique elements in the jewels) because it becomes more profitable and perspective.

- In the RUSSIAN domestic legislation circumstances not only ordinary customers suffered immense risks of buying bogus items, but the state itself because it has to deal with “shadow” market in which working honestly is the worst strategy to employ.
- Also, that means that there is no real place for honest producers in the Russian jewellery industry.
The organizational structure of jewelry producing firms in Russia and China (1)

- Most Chinese local jewelry manufacturers are small-or medium-sized.
- The hierarchical organizations in the given market practically is absent, mostly all manufacturers are based on sub-contract relations between each other. The horizontal integration extended in the market of China has shown considerably higher comparative efficiency.
- In Russia small and medium-sized manufacturers takes only 6% of the market. Big local giants takes more than 90% of the whole Russian jewelry producing branch.
- Mostly all these companies represent strong hierarchical vertical organizational structure without opportunity to suite with rapidly changing consumer demand preferences.
Currently, about 70% of China’s 5,800 jewelry makers have export capability and of which, around 1,000 can ship products directly. The rest export via the country’s more than 1,500 trading companies.

Mostly all Russian companies have export capabilities, but the level of export in 2010 was no more than 7% from all locally produced jewels.
Lured by the low-entry barrier and high growth prospects, more companies continue to join the industry. Existing companies are also expanding production capacity and improving their facilities to meet the surging demand.

Strong legislations barriers make practically impossible the emergence of new players on the Russian jewelry producing market.
Conclusion

- Different courses chosen by jewellery manufacturers and different organizational structures of enterprises on the markets of China and Russia, after 20 years lead to the significant difference in share of each country in the world volume of output.

- Comparative socio-economic analysis of the jewellery market development in Russia and China allows conclude the following: the strategy of development, chosen by manufacturers of these countries significantly differ, that essentially influences dynamics and branch health in both countries, and also influence on the share of local manufacturers from Russia and China on the world market.