

## Analysis and News - Analysis

# The Jewel of Hong Kong: The Magic of Jade

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✍️ [Louis Chan](#)

Already hit by shortages of essential products due to regulatory changes and natural disasters, the international gem and jewellery industry has faced additional problems due to the Covid-19 outbreak. Hong Kong, the world's third largest exporter of diamond, gems and pearls (HS 71), saw a year-on-year slide in exports of 20% in 2020. A notable exception was the jade or fei cui sector (HS 71031010 & HS71039910) which Hong Kong has long been recognised as a leading production and trading centre.



Jade accessories: Popular items with many Hong Kong consumers. (1)



Jade accessories: Popular items with many Hong Kong consumers. (2)

Last year, Hong Kong's jade exports surged by more than 40% to top HK\$1.1 billion. This was despite a series of problems derailing the jade supply from Myanmar, which holds the world's largest and best-quality jade deposits. These included the new Myanmar Gemstone Law aimed at eradicating illegal mining and extraction of gems, the postponement of major jade and gem emporiums, rising global scrutiny of the industry following a deadly mine collapse in the jade-rich Hpakant area of Kachin state in July 2020, and most recently the international sanctions following the political crisis that began in February 2021.

The US Treasury has listed a number of Myanmar individuals and entities including some major jade rough suppliers such as *Cancri (Gems and Jewellery) Co., Ltd*, *Myanmar Imperial Jade Co., Ltd* and *Myanmar Ruby Enterprise* on the specially designated nationals (SDN) list. No US company can engage in any transaction with those listed that will result in a financial benefit to them. Hong Kong businesses that deal with these suppliers are not allowed to knowingly sell these goods to US companies. The restrictions cover not only those listed but also any entities of which they own 50% or more, directly or indirectly, individually or with other blocked persons. There are exceptions if there is a general or specific license issued by the Office of Foreign Assets Control (OFAC) of the US Treasury or they are otherwise exempted. Since there is currently no general or specific license in place for these entities, the supply of Myanmar jade rough in the world market is likely to be further restricted in the near future.

On the other hand, there is a host of contemporary designers determined to promote the gem's appeal among younger generations such as Gen Z or post-95, and the explosion of e-commerce and innovative shopping experiences such as online auctions and live-streams during the Covid-19 pandemic offers new opportunities to the jade market.

According to the 《2019–2020中國翡翠行業消費白皮書》, the proportion of jade consumers in the post-1995 category who are willing to pay a premium for modern designs climbed from less than 4% in 2017 to more than 19% in 2020, while virtual jade auctions and live streams for jade rough and jewellery are also becoming far more acceptable among both buyers and sellers.



Junior jade designs: Contemporary takes targetted at younger consumers. (1)



Junior jade designs: Contemporary takes targetted at younger consumers. (2)

In an interview with Louis Chan, HKTDC Assistant Principal Economist (Global Research), Kitty Chan, Sales Manager of *Sheentiff Jewellery*, shares her views on how the changing circumstances are interplaying to impact on the jade trade in the post-Covid world.

**Louis:** How have you coped with the various disruptions to the jade supply chain? How has the industry been affected so far, and how is it responding?

**Kitty:** Even prior to the military coup and Covid-19 pandemic, there was considerable disruption to supply for the jade industry. The expiry and non-renewal of mining licences since mid-2018 in Myanmar, and the enforcement of the Myanmar Gemstone Law in 2019, were among measures promoting transparency, sustainability and environmental conservation. The outlook changed again in the aftermath of the mining disaster that reportedly killed more than 170 people in Hpakant during the notoriously severe monsoon season in July 2020. Most recently the postponement of Myanmar Gems Emporium, or the “jade auction” as many people in the trade call it given the gem’s heavyweight role there, was postponed. All these have readied the jade industry players to brace for supply-chain ups and downs.



The jade supply chain: Viewed as vulnerable even before the Covid-19 outbreak. (1)



The jade supply chain: Viewed as vulnerable even before the Covid-19 outbreak. (2)

Given the reduction in jade mining and the postponement of the “jade auction”, the industry has seen significant price spikes for roughs in recent years. Low-end roughs have been moving up the value chain to command middle-ranged prices, while those in the middle range have now become high-end offers. So high are the valuations of many premium pieces that many sellers are unwilling to provide guideline price estimates, while many buyers are reluctant to bid in the expectation that they will subsequently be unable to turn a profit.



The jade supply chain: Viewed as vulnerable even before the Covid-19 outbreak. (3)



The jade supply chain: Viewed as vulnerable even before the Covid-19 outbreak. (4)

Against this backdrop, most jade jewellery manufacturers or traders are using their rough stockpiles to continue production, while others are paying a premium for the limited supply of new roughs in the market or exploring new supplies (usually of lower-quality) from Latin America such as Mexico and Guatemala, Europe such as Russia or Mainland China. There are however a small number of companies which still have access to the new jade roughs from Myanmar.

The impacts have been particularly hard on newcomers who do not have a reserve stockpile and companies which do not have a diversified market or client portfolio. For example, the supply problems have led many jade companies to expand their operations to other market segments so as to best utilise their limited supply of roughs. Some high-end or middle-ranged jade companies have recycled their scrap to make items catering to the lower-end market or sold the scrap to other manufacturers. This is why people can still find jade jewellery bargains on different online and offline marketplaces, although the prices of jade roughs have been skyrocketing.

**Louis:** How can better or more sophisticated testing and certification services help, perhaps something like the *GIA*, *HRD* and *IGI* certificates for diamonds? Do you see there is a future for man-made jade, like chemical vapor deposition (CVD) stones or lab-grown diamonds?

**Kitty:** Jade, like other coloured gemstones such as ruby, sapphire and emerald, is very difficult, if not impossible, to commoditise. The application of non-controversial, standardised certification is also difficult. As a matter of fact, since the early 1980s when the jade market was flooded with chemically-treated and resin-impregnated or dyed fei cui (also known as Type B or Type C in the industry), Hong Kong has been a leading jade testing hub. Testing reports or certificates issued by Hong Kong laboratories such as the *Hong Kong Jade & Stone Laboratory* are highly accredited by international buyers and auction houses such as *Sotheby's*. However, the testing and certification service is not cost-effective for low-to-middle ranged or mass-market items that have been driving sales in bad economic times.

In terms of substitutes, most jade consumers prefer natural fei cui (Type A) that features a variety of colours, cuts and polishes to man-made offers. Unless the supply strains reach a level where new roughs are completely unavailable, most of the trade will continue to focus on natural fei cui only. Having said that, the industry does not rule out the possibility of technological breakthroughs that might allow the adoption of generally-accepted traits (like 4Cs for diamonds) for jade grading and pricing, and make the auction and market prices of jade roughs more predictable.

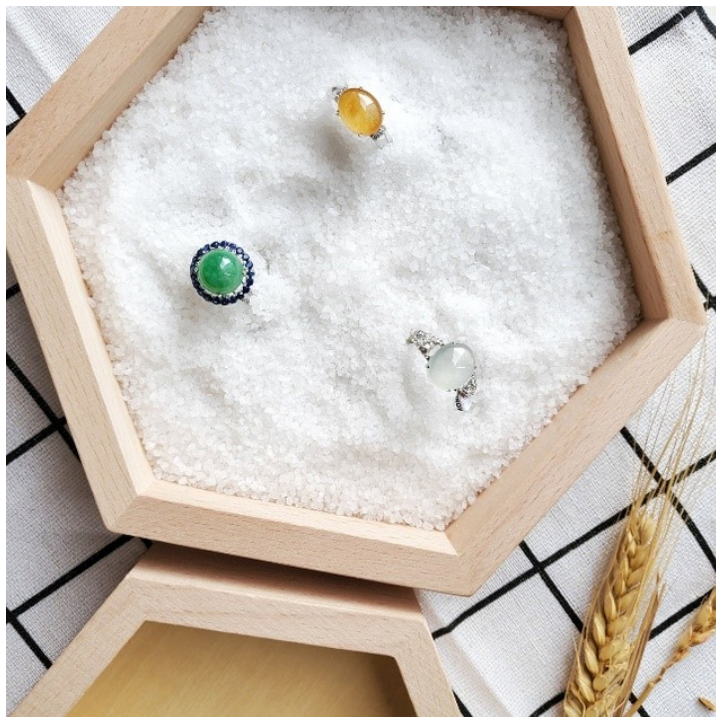
**Louis:** How far is consumer market diversification a good tactic for the trade during the global virus outbreak? Are there any bright spots for jade jewellery?

**Kitty:** Hong Kong and mainland China continue to make up the lion's share of our sales, especially during the Covid-19 crisis, while other Asian markets with many Chinese consumers have also been thriving. E-commerce and contemporary designs are pushing the gem's appeal to younger



generations who are early adopters of novel marketing channels such as social media commerce and live-streams. These channels have increasingly become the norm after the Covid-19 pandemic. Hot items include cufflinks, tie clips and other men's accessories, while more typical ladies' items such as bangles, rings and pendants are now using silver or other less precious metals as settings.

A Hong Kong jade testing certificate: An internationally-recognised assurance of quality.



Jade jewellery settings: silver and other precious metals are increasingly the materials of choice. (1)



Jade jewellery settings: silver and other precious metals are increasingly the materials of choice. (2)

Asia aside, we've seen an increase in orders from foreign markets, including France, Italy, the UK and the US, after a gloomy 2020. Although some of the demand is to replenish stocks, it is also very encouraging to see the increasing appetite of foreign fashion brands and jewellery designers for jade in their collections. But of course, the demand for jade in Western markets is not comparable to that in Asia, and the consumer demographic remains dominated by customers aged over 40.

**Louis:** The Covid-19 pandemic has forced many businesses to embrace digital transformation. This includes the adoption of new production processes and new promotion and distribution media to harmonise online and offline (O2O) sales and marketing efforts. How important do you see these digitisation moves in driving sales momentum, in terms of cost saving and appeal to Gen Z?

**Kitty:** We are lucky to have businesses catering to different markets and customer segments. This has given us flexibility in adjusting our production and sales to cope with the supply and demand shocks. Even when the higher end market is not moving as fast as before, our rough stock is still appreciating in price, and we've managed to develop and sell lower-priced, mass-market items via e-commerce.

In jade production, technologies such as laser cutting and carving have already widely been applied to boost efficiency and reduce waste. But as a powerful symbol of the enigmatic early culture of China, jade, no matter how much its production processes such as carving, polishing, cutting, grinding, engraving, drilling and sanding are automated, still requires human finishing.

On the sales and marketing front, virtual marketplaces and fairs are being used to maintain contacts and meet new customers. Many jade jewellery companies have invested in technologies that can enhance their 3D presentations and corporate websites, to help them appeal to online shoppers who are increasingly tech-savvy and demanding. Others have launched gimmicks such as live-streaming the whole production process to increase the transparency and reliability of their offers. The biggest headache for the trade now is how to ensure the production capacity can catch up with the sales growth that might result from viral marketing campaigns.

It remains a challenge for buyers to place big orders relying solely on virtual showcases or demonstrations. Many members of the industry consider that virtual means such as live-streams are only effective for low-to-middle ranged or mass-market items. For the more exclusive product lines, hands-on examination is still essential.

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