

US-China Trade War Shouldn't Hurt Diamonds

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RAPAPORT... The global diamond and jewelry industry may have felt nervous about the US proposal earlier this month to place \$50 billion-worth of tariffs on Chinese goods. The response from the People's Republic last week — threatening its own duty hike on imports from the US — raised the stakes higher still.

However, diamond traders need not worry yet, senior figures in the sector have predicted. Precious stones and jewelry are not included in either country's list of targeted products, and are unlikely to be the subject of tariffs in the near future.

President Donald Trump's actions focus on products that both the US and China export in huge quantities, explained Colin Shah, vice chairman of India's Gem & Jewellery Export Promotion Council (GJEPC) in an interview with *Rapaport News* Tuesday. Diamond cutting is such a small industry in the US that the state will probably not bother sheltering it from foreign imports, Shah predicted.

Of little import

US government figures show the nation shipped \$21.62 billion of polished diamonds globally in 2017 — a figure dwarfed by, say, the \$99 billion aircraft trade, according to CNN. China only exported about \$1.91 billion of polished in 2016, according to the latest data from the China Customs Information Center. US imports of metal parts for jewelry are also minimal.

"The US government is trying to protect domestic manufacturers," Shah said. "In the case of diamonds, the US doesn't produce [many] diamonds, so we don't believe there will be any tariffs."

What's more, American consumers would be among the chief victims of any US duties on diamonds or jewelry, as prices would rise, he pointed out.

Jewel duel

Tariffs on China would barely impact its diamond trade as the country gets most of its diamonds from outside its borders, and doesn't export many of them, noted Julius Zheng, vice president of the Shenzhen Rough Diamond Exchange.

Still, any US tariffs on Chinese jewelry, however unlikely, would hurt the Asian country's export trade. China, especially the Guangdong province, has a large number of factories that manufacture jewelry using silver, gold or platinum for large US brands.

"If the US imposed tariffs on jewelry, it will impose negative effects on these factories, depending on the rate," according to Zheng. "The tariff will also be transferred to US consumers."

The main beneficiaries in that case would be Indian manufacturers capable of filling the gaps in the market, Shah explained. India — and China at the moment — are both subject to a US duty rate of about 6% on imports of jewelry and jewelry parts, he said.

Beijing's retaliatory tariffs do not currently include diamond- and jewelry-related goods, Zheng explained. If they were to in

the future, the impact on US-China trade would be slight, he argued. Western brands that import some of their jewelry to China for local retailing would find it more expensive to do so if tariffs were higher. However, this is a small sector of the Chinese jewelry market, he noted.

Most jewelry sold in China is manufactured domestically, while most diamonds come from India, Belgium or Hong Kong, he pointed out.

What of Hong Kong?

Hong Kong operates under a separate trade system, and its free port means it frequently benefits from high tariffs in other countries. The municipality, which often serves as a stop-off point in transfers of goods between countries, could lose business if Chinese exports to the US decline as a result of Americans tariffs.

However, given the small number of diamonds China produces, any tariffs would probably not damage the municipality's gem business, according to Lawrence Ma, president of the Diamond Federation of Hong Kong, China. Jewelry may suffer more, as a lot of Chinese-made items go through Hong Kong's port, Ma noted.

Even so, this is mainly theoretical, as the chances of such tariffs are low.

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