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## Why Diamonds Are China's Friend

Hana R. Alberts, 01.25.10, 4:00 AM ET

HONG KONG - Chinese consumers are whetting their appetites for bling.

Diamond sales in the world's most populous country rose 16.9% in 2009 to \$1.5 billion, state-run media said Sunday. The surge catapults China's diamond market in front of Japan's, which now holds the No. 3 spot; it is second only to America's.

These gemstones weren't always coveted in China, where jade and gold pieces are traditionally given as gifts. But aggressive efforts by De Beers, including TV spots and wedding sponsorships, initiated during the 1990s, helped change modern practices to include a diamond. (See story, "[Wedded To The West](#).")

The wedding industry is worth about \$82.5 billion a year, which amounts to 2.5% of GDP, according to Reuters. An account of how the wedding craze is boosting businesses like real estate described one family-owned jewelry shop in Beijing that used to make the occasional bespoke diamond piece but now sells hundreds of rings a month to meet demand.

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Each year in China about 10 million couples tie the knot, and the figure is expected to reach 11.82 million this year, according to People's Daily, a state-run newspaper.

A marketplace in Beijing that opened on Jan. 1 took in sales revenue of 12 million yuan (\$1.76 million) in just three days, mostly from young couples about to get married, People's Daily said.

In Hong Kong in December Christie's sold a rare pink diamond for \$10.8 million, the highest price any jewel fetched at auction in 2009. While it went to an anonymous bidder, 8 out of 10 of the most expensive jewels in that sale--most of them diamonds--were bought by private collectors in Asia. (See story, "[World's Most Expensive Pink Diamond](#).")

In China sporting a diamond is a universally recognizable sign of achievement, according to Lloyd C. Harris, a professor of marketing and strategy at Warwick Business School.

"As consumers grow wealthier, they wish (publicly) to demonstrate their success via the symbols of capitalist success--diamonds are the ultimate status symbols," Harris writes in an e-mail.

South Africa-based De Beers, which is 45% owned by miner Anglo American, has most of the market cornered. In the decade leading up to 2004 De Beers' diamond sales in China quintupled to 2.3 million stones.

Australian giants Rio Tinto and BHP Billiton also mine diamonds.

Sellers, however, have not survived the downturn unscathed. De Beers has put some of its projects on hold, while Rio Tinto stalled work on a \$1.5 billion diamond mine that it expects to resume at the end of this year. Zales, a large diamond retailer in the U.S., closed 191 outlets in 2009.

To combat a drop in demand, De Beers, Rio Tinto, BHP and other major players--Russia's Alrosa and Canada's Harry Winston Diamond Corporation--formed the International Diamond Board last summer. The consortium focuses on attracting buyers, especially in emerging markets like China and India.

Some companies are already reaping the benefits. Tiffany & Co. boasts more stores in Asia than the U.S. (102 to 91). The U.S. market, too, is showing some signs of recovery. Adjusting for exchange rates, Tiffany's holiday sales increased 17% in the U.S.,

compared with 4% in Asia. And sales at the flagship Fifth Avenue store in New York did even better, rising 20% between Nov. 1 and Dec. 31.

Some of the world's richest people are in the diamond business. (See "[The World's Billionaires](#).") Israeli Lev Leviev is the world's largest cutter and polisher of diamonds. (See "[Lev Leviev's Billionaire Profile](#).") While his LLD Diamonds has challenged De Beers' stranglehold on the market, the tycoon is struggling to meet debt obligations. (See "[Taking On De Beers' Cartel](#).")

Meanwhile, Hong Kong billionaire Cheng Yu-tung also sees the promise of the China diamond market. The chairman of real estate firm New World Development started expanding his high-end jewelry business, Chow Tai Fook, northward a few years ago. (See "[Cheng Yu-tung's Billionaire Profile](#).") It plans to open 100 new stores in mainland China in 2010.

Retailers anticipate a strong start to 2010 because Valentine's Day falls during the weeklong holiday of Chinese New Year, a popular time to get married.

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