

Table AIII-2-3-1

PROBLEMS ENCOUNTERED IN MANUFACTURING PROCESS		RANK
Design		1
Sewing		2
Cutting		3
Assembly		4
Stuffing		5
Inspection		6
Other Areas*		7

* Other Areas include: sudden change in design of production operations, lack of awareness on acceptability of design to buyers.

Table AIII-2-3-2

CAUSES OF PROBLEMS ENCOUNTERED IN THE MANUFACTURING PROCESS															
	A			B			C			D			E		
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	
Design	23	62.16	8	21.62	3	8.11									
Cutting	10	40.00	3	12.00	4	16.00									
Sewing	17	53.13	4	12.50	6	18.75									
Assembly	13	46.43	3	10.71	9	32.14									
Stuffing	3	14.29	0		6	28.57									
Inspection	2	14.29	0		4	28.57									
Design	3	9.11	9	24.32											
Cutting	8	24.00	1	3.00	25	75.00									
Sewing	9	27.27	2	6.25	32	96.76									
Assembly	2	7.14	1	3.57	28	85.71									
Stuffing	5	15.15	8	24.24	31	93.94									
Inspection	2	14.29	7	50.00	14	100.00									

LEGEND:
 A - Lack of Skilled Labor or Staff
 B - Difficulty in Meeting Buyers' Request
 C - Lack of Quality Standards
 D - Lack of Machinery
 E - Others*

* Other Areas include: sudden change in design at the middle of production, lack of awareness on acceptability of design preferred by buyers, design limited by availability of easy materials, lack of color variety, cannot get additional laborers for fear of labor unions, varied standards of buyers, lack of materials in stock, quality of stocking materials, lack of good raw materials, high cost of machinery and spare parts, poor quality of raw materials, and certain materials are transmittable to certain processes.

Table AIII-2-3-4

FACTORS NEEDED TO UPGRADE PRODUCTION COMPANY		(n=70)
FACTORS IDENTIFIED		RANK
Improve Design		1
Technical Training		2
Market Information		3
Introduction of New Machinery		4
Quality of Raw Materials		5
Introduction of Foreign Technology		6
Others		7

Table AIII-2-3-3

METHODS	NUMBER OF FIRMS (Multiple Responses)	%
Use of Calibration Tools	16	22.86
Visual Inspection	70	100.00
Use of Testing Equipment	14	20.00
Others*	6	8.57

* Others include aging machines for PVC products, laboratory facilities and SCS.

Table AIII-2-4-1

DESTINATION	PERCENTAGE OF TOTAL SALES											
	1-25%		26-50%		51-75%		76-100%				n	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Philippines	7	14.00	2	4.00	2	4.00	2	4.00	39	78.00	50	
U.S.A.	6	25.00	6	25.00	5	20.83	7	29.17	0	0	24	
Australia	7	87.50	1	12.50	0	0	0	0	0	0	8	
New Zealand	3	100.00	0	0	0	0	0	0	0	0	3	
France	7	77.78	2	22.22	0	0	0	0	0	0	9	
Germany	7	76.00	3	30.00	0	0	0	0	0	0	10	
U.K.	12	85.71	2	14.29	0	0	0	0	0	0	14	
Japan	4	44.44	2	22.22	1	11.11	0	0	0	0	9	
Taiwan	3	75.00	1	25.00	0	0	0	0	0	0	4	
Hongkong	6	100.00	0	0	0	0	0	0	0	0	6	
Korea	1	100.00	0	0	0	0	0	0	0	0	1	
Singapore	1	100.00	0	0	0	0	0	0	0	0	1	
Others*	10	83.33	2	16.67	0	0	0	0	0	0	12	

* Others include: Switzerland (5%), Italy (5%), Other EEC (10-15%), Netherlands (10%), Brazil (5%), Dubai (5%), Greece (3%), Italy (20%).

Table AIII-2-4-2

ACTIVITIES	NUMBER OF FIRMS		%
	(Multiple Responses)	(n=70)	
Call on Foreign Customers Abroad	15	22.86	
Call on Foreign Customers in the Philippines	17	24.29	
Call on Traders in the Philippines	24	34.29	
Propaganda Through Mass Media	3	4.29	
Catalog Mailing	13	18.57	
Exhibit Samples at Trade Fairs	47	67.14	
Others*	27	38.57	

* Others include: sending samples to potential outlets (5); word of mouth (2); Consular (2); visit for well-to-do customers (2); done by foreign partners (2); direct approach to departments stores (1); Dept. of Trade and Industry (1); Submarine (1).

Table AIII-2-4-3

DISTRIBUTION CHANNEL	NUMBER OF FIRMS		%
	(Multiple Responses)	(n=34)	
Through Trading Company	15	44.12	
Through Foreign Buyers	27	79.41	
Direct Selling	21	61.76	
Others: Trade Fairs, Local Exporters	2	5.88	

Table AIII-2-5-1

SOURCES OF FINANCING		(n=70)	
SOURCE	NUMBER OF FIRMS (Multiple Responses)		%
Own Capital	52		74.29
Government Non-Banking Financial Institutions	6		8.57
Commercial Banks	18		25.71
Non-Banking Financing Companies	2		2.86
Relatives and Friends	10		14.29
Cooperatives	1		1.43
Customers	4		5.71
Others*	9		12.86

* Others include: another companies (2); suppliers' credit (1); co-operators (1); development banks (2).

Table AIII-2-6-1

DISTRIBUTION OF FIRMS ENGAGED IN SUBCONTRACTING OUT ACTIVITIES		(n=70)	
	NUMBER OF FIRMS		%
Engaged in Subcontracting Out	36		51.43
Not Engaged in Subcontracting Out	34		48.57
TOTAL	70		100.00

Table AIII-2-6-2

DISTRIBUTION OF FIRMS ENGAGED IN SUBCONTRACTING IN ACTIVITIES		(n=70)	
	NUMBER OF FIRMS		%
Engaged in Subcontracting In	32		45.71
Not Engaged in Subcontracting In	38		54.29
TOTAL	70		100.00

Table AIII-2-5-2

URGENT FINANCIAL PROBLEMS ENCOUNTERED	RANK
Limited Capital	1
High Interest Rates	2
Inability to Plan Cash Flows	3
High Inventory	4
Difficulty in Paying Loan	5
Amortizations	6
Others	

IV. Costume Jewelry Industry

IV. Costume Jewelry Industry

1. Present Situation of Export of Costume Jewelry

1-1 Outline

(1) A Definition of Costume Jewelry; Its Market and Characteristics

Before defining costume jewelry, the difference in meaning between jewelry and accessories should first be touched upon. The term accessories means a wide variety of items, including personal ornaments (necklaces, earrings, rings, etc.), women's clothing accessories (buttons, etc.), and fashion accessories (hats, gloves, socks, handkerchiefs, scarves, belts, handbags, shoes, etc.). Jewelry usually involves the use of gemstones.

Jewelry can be classified into fine jewelry and costume jewelry, and an expanding intermediate category of "bridge jewelry" has also sprung up. The term *semi-jewelry* refers to another group that overlaps both bridge jewelry and costume jewelry. (See Table IV-1-1)

Fine jewelry refers to traditional pieces using valuable and finely-crafted gold, silver and gemstones. Costume jewelry generally indicates pieces using inexpensive materials designed to accent trendy fashions and designs, especially in Europe and the United States. The word costume jewelry itself was originally a commercial term invented to distinguish these pieces from fine, or genuine, jewelry.

In place of the costly precious metals and gemstones used in fine jewelry, costume jewelry uses inexpensive base metals which have been plated, synthetic gemstones, plastics, textiles, and a variety of natural materials. Designed with an emphasis on fashion and lacking the lasting value of fine jewelry, these pieces have a short life cycle and are generally mass-produced by machines. Major products include women's hair ornaments, earrings, pendants, necklaces, bracelets, bangles, brooches, rings, locket, armlets, anklets, button covers, watches, men's tie clasps and cufflinks, novelty items like key holders, and various character goods.

The main markets for fine jewelry are wealthy older women and well-paid working women. Purchases of brand-name designs by male consumers as gifts for anniversaries and other occasions have also been increasing in recent years. Because of its lasting value, fine jewelry is commonly worn on more formal occasions. In contrast, the market for costume jewelry is characterized by widely-ranging age groups and strongly reflects individual preferences. Purchases are made based on changing fashion trends, seasonal factors, and time, place, and occasion.

The market for costume jewelry can be divided into three sectors -- high-end, intermediate, and low-end -- on the basis of purchase incentive. (1) Low-end products are like consumer goods in that they use inexpensive materials, have short product cycles that are easily influenced by short-lived fads, and can be worn on more casual occasions. (2) Intermediate pieces are made using moderately-priced materials, are sold under license from U.S. and European designers, tend to be very trendy, and fall somewhere between formal and casual. (3) High-end costume jewelry involves formal pieces made from relatively expensive materials and having designs very similar to fine jewelry. (See Table IV-1-1)

Low-end and intermediate products are especially influenced by yearly and seasonal fashion trends in terms of materials, designs and colors. Product life cycles are generally quite short, with a strong leaning towards fads and trends.

Bridge jewelry is a term used to describe a new category that has sprung up between fine and costume jewelry. In Japan it is treated as a type of fine jewelry. In some cases the manufacturing process may be the same as that for fine jewelry, yet the pieces are relatively inexpensive; in others, silver artificial gemstones or natural materials may be used.

Bridge jewelry does not have the lasting value of fine jewelry and its price range is between the high-end and intermediate zone and has etched out its own niche in the market. In terms of design and pricing, however, it has been approaching fine jewelry, and it is popular among the (younger) consumers considered to be the eventual purchasers of fine jewelry, reflecting increasing consumer preferences for "the genuine article." These pieces are also purchased as gifts.

Although in terms of price expensive items of fine jewelry are sold in the highest price range, some pieces of fine jewelry are sold in the same price range as intermediate range costume jewelry. Bridge jewelry is sold at prices anywhere between the comparatively cheap range of high-end costume jewelry items and the higher price range of intermediate items. Thus, the various price ranges tend to overlap one another. The concepts of fine, costume and bridge jewelry are therefore decided by the price range into which they fall, and are formed on the basis of the preferences and motives of purchasers.

Semi jewelry, while it may use imitation materials, is a category overlapping bridge jewelry and high-end costume jewelry in terms of design and pricing, and in fact it approaches fine jewelry.

In the following discussion, costume jewelry markets are broken down into four classes, A through D. Class A indicates the market for high-end products, and corresponds to what would be called "formal" market in Japan or "high-end goods" in the United States. The Class B market covers intermediate-range products, and is equivalent to the "semi-formal" market in Japan or the "bridge jewelry" market in the United States (to be distinguished from the "bridge jewelry" market in Japan). The Class C market consists of the upper half of low-range products, and refers to the "fancy/casual" sector in Japan or the "low-end" sector in the United States. Finally, the Class D market covers the lower half of low-range products, and corresponds to the "character/novelty" market in Japan or the "novelty" market in the United States (see Table IV-1-1).

(2) The International Market and Major Producing Areas

1) Import

Depending on the trade statistics of U.N., worldwide imports of costume jewelry grew steadily at an average annual rate of 24.5% from 1983 to 1988. This was due to expanded imports by both the industrialized nations and the NIEs, which had been exporters. The United States was the largest single buyer in 1988, with imports valued at \$555 million, but its share of total imports was down to 29% from 47% in 1984. U.S. imports increased steadily until 1985, with growth leveling off after that. During the same period, European imports continued to rise, with this region's share of total imports growing from 30% to 40%. The figure for Asian countries also rose from 14% to 24%. (See Fig. IV-1-2)

2) Export

The three leading exporters of costume jewelry in 1988 were Hong Kong (\$321 million), the R. Korea (\$259 million), and W. Germany (\$175 million). Together these three countries accounted for roughly half of worldwide exports of \$1.6 billion. Asia was responsible for 50% of all exports, and Europe for 41%. Philippine exports of \$19 million represented only 1% of the total and were small in comparison with shipments by Thailand (\$33 million) and India (\$44 million). Although Taiwanese exports are not listed in U.N. statistics, judging from trade with Japan it appears that they are fairly active in exporting. China is also increasing shipments taking advantage of its plentiful supply of cheap labor. Asian exports of costume jewelry have been successful because this is a labor intensive industry and the region has a large supply of cheap labor. Asian producers use different materials in each country and have targeted different sectors of the world market. Virtually all exports are low in price.

The Philippines is the region's main source of supply for shell, coral, and wooden costume jewelry. Buyers come from Europe and the United States in search of costume jewelry using these natural materials. Taiwan and Hong Kong import large quantities of shells and other raw materials from the Philippines for processing and export. The resulting products are of higher quality than those produced in the Philippines.

Europe and the United States are currently importing finished and semi-finished products from the Philippines, but in the future they may establish processing bases in areas offering lower costs. The United States in particular is likely to turn to Mexico. Reasons include faster delivery times, the ability to handle detailed designs, the capability for direct control over manufacturing, and the lack of risks like political instability and natural disaster.

3) Features of products from major exporting regions

a) Asia

The share of major exporting countries in Asia of total global exports in 1988 are as follows: Hong Kong 20.0 percent, the Republic of Korea 16.1 percent, Japan 6.6 percent, India 2.7 percent, Thailand 2.0 percent. In the five years from 1984 to 1988 exports from Hong Kong and Japan doubled, and Korea's exports grew 3.6 fold. Exports from India and Thailand showed remarkable growth, expanding 11 and almost 7 fold respectively over the same period. Exports from the Philippines, however, only grew 1.6 times over that period, and the country's market share shrank from 2.1 to 1.2 percent.

Hong Kong: As Hong Kong is Asia's center for the collection of information on worldwide fashion, it is sensitive to changes in fashion trends. The designs of products made in Hong Kong are thus superior to those in the surrounding region. Hong Kong's plating is better than that in R. Korea, and it is able to fill small-lot orders. Although it used to export ivory products, this was ceased in line with the Convention on International Trade in Endangered Species of Wild Fauna and Flora. Using the same technology, however, makers in Hong Kong now make products from horns, claws and hooves and semi-precious stones for export. Reflecting the recent emergence of R. Korea and Taiwan in the field as well as growing popularity of fine jewelry worldwide, Hong Kong is beginning to move production bases into China and to produce fine jewelry as well.

Taiwan: Japan introduced plastic, cotton and diecast processing into Taiwan at a time when its industry was experiencing a shift toward high value-added products. Thus Taiwan's industry developed as a production and processing base for Japan. From here it grew to be a supplier of plastic products worldwide. Metal parts and plating grew up as

peripheral industries. Taiwan also began the supply of metal parts such as metal fittings, and plastic materials to its neighboring countries. Taiwan is also a supplier of semi-precious gems.

In recent years Taiwanese cast, brass, cloth, shell, plastic and plastic diamond products have gained a firm place in the low-end and intermediate products market due to their suitability in terms of both quality and price. However, Taiwanese manufacturers are not as prepared as their counterparts in Hong Kong to accept orders for small lots and short life cycle items from Japanese buyers.

Thailand: The high reputation of traditional Thai silver products as well as its easy access to precious and semi-precious stones provide the groundwork for the fine jewelry industry in Thailand. Low priced jewelry, particularly silver products, are currently undergoing rapid growth. Moreover, with the introduction of advanced production facilities and technology from countries such as Taiwan, production of costume jewelry including cast products is rapidly developing.

India: Most products are hand processed from glass, brass, carabao (water buffalo) and camel bones, bamboo, wood and cloth with technology introduced from Europe. The major importing regions of Indian costume jewelry are Europe and the Middle East. India is also drawing attention as a potential processing base for fine diamonds as it is home to craftsmen very skilled in this area.

The industries in Japan and R. Korea are examined in Chapter 1, Section 1-2 and Annex IV-3 and IV-4.

b) Europe

In 1988 the market shares of the major exporting countries were 10.9 percent for West Germany, 6.7 percent for Italy, 5.4 percent for France, 4.2 percent for the U.K. and 4.1 percent for Austria. Over the five years from 1984 to 1988 exports from these countries increased more than 2.5 fold. Growth in exports for France and West Germany grew between as much as 3 and 4 fold. However the buying and selling of products and parts within the E.C. account for a considerable proportion of these figures.

West Germany: West Germany is one of Europe's major producers of gold and silver crafted products. Craftsmen are scattered in many parts of the region. Plating and other metal processing technology is highly advanced and firms such as Henkel carry out OEM supply to French firms.

West Germany, along with Italy and Austria is one of Europe's accessory production bases. It is particularly prominent as a product finishing region. Its exports include products made from semi-precious stones, plastic, cast, glass and various metals.

Italy: Italy is the world's No. 1 supplier of gold and silver products. Its processing technology is of an extremely high standard. Moreover, due to its status as a world fashion center it also has claim to superior design capacity. It produces high-end products from a variety of materials including base metals. It also exports metal fittings for bags and shoes made from base metals.

France: French manufacturers consider traditional added value very important and French firms concentrate on design development. The marketing strategy on French firms centers around brand names which are based on intellectual property rights. In general France commissions production of its designs in Italy, Austria and West Germany. Its plastic products display particularly excellent color coordination and fashion sense.

Austria: Austria is home to the world's largest cut glass factory, "Swarovski". The factory supplies glass cut beads and glass cut diamonds worldwide. Its accessory factories, concentrated in Linz also produce a wide range of accessories.

1-2 The Japanese Market

(1) Features of the Japanese Market and the Production and Distribution Systems

1) Outline of market and type of consumer

In the past, Japan levied a 15% commodity tax on all jewelry priced at more than ¥37,500, resulting in a significant gap in terms of price, value, types of consumer, and dealers and distributors between products falling above and below this line. With the revision of the tax system in April 1989, however, the commodity tax was abolished together with the registration system for dealers of items on which the commodity tax was levied. As a result, distributors which had only dealt in cheaper items began to move into upmarket product ranges, and consumers, encouraged by the elimination of the commodity tax and an increasing preference for upmarket goods, began turning to fine jewelry.

Based on shipments, the Japanese market for costume jewelry was estimated in 1990 at ¥383.62 billion¹⁾. Based on household consumer expenditures, the estimate for the same year was ¥541.2 billion²⁾.

- 1) [Domestic production - exports + imports] x 4. The figure 4 covers things such as distribution costs and margins.
- 2) Costume jewelry expenditures/household x number of households

The Japanese market for costume jewelry can be broadly divided into three segments according to the intended buyers, materials, and price: a) costume jewelry (formal/semi formal pieces); b) costume jewelry (fancy/casual pieces); and c) character/novelty goods. There is a new category called bridge jewelry (inexpensive fine jewelry) between fine jewelry and costume jewelry, and it is expanding. Each of these segments is described below.

a) Formal/Semi-formal pieces

Buyers:	Women in their twenties, thirties and forties.
Wearing occasions:	Same as for inexpensive fine jewelry. However, costume jewelry can be worn with a more casual air.
Materials and design:	Commonly-used materials include coral, amber, horn, bone and other upmarket natural materials together with precious metal-plated pieces designed around synthetic stones. There are two main currents of design -- basic, traditional pieces and trendy designs that follow apparel fashions.
Typical price range:	¥5,000-10,000 for Japanese items and ¥10,000-15,000 for imported pieces.
Imports:	Limited to a role of filling out existing product lineups.
Sales channels:	Department stores, boutiques, and "total fashion" stores.
Other:	There is active development of brand lines, with manufacturers striving to improve product grade and increase prices based on brand image. In the case of foreign designer brands, most products are produced in Japan under license. Most of the remainder are imported as finished products.

b) Fancy/Casual pieces

Buyers:	Mostly students in their late teens or twenties.
Wearing occasions:	Worn on a daily basis with an emphasis on fashion and little concern for materials.
Materials and design:	Numerous materials are used, including glass and plastic as well as natural materials like shell, horn, bone and wood. Plated items are also common. Fashion trends and novelty are critical elements for products in this field, and the competition for product development -- including materials, coloring, and design -- is intense.
Typical price range:	¥1,000-3,000
Imports:	Suitable parts, semi-finished goods and finished goods are imported. Important considerations are material and production costs and product quality.
Sales channels:	Department stores, volume sales stores, clothing boutiques, gift shops, and other stores selling miscellaneous goods.
Other:	Locally-produced goods and products from the NIEs are both common, with the market being characterized by low price, high quality, and great variety. Products in this market have the shortest life cycle of any type of costume jewelry.

c) Character/Novelty goods

Buyers:	Mainly teenagers.
Wearing occasions:	Worn as accessories with a strong element of playfulness.
Materials and designs:	Most of the materials used are inexpensive; examples include natural materials like wood, bamboo, and coconut shell along with paper, plastic, and a variety of other materials. Designs emphasize current topics and trends, with some products using well-known sports figures or characters from comic strips or television programs as their design motifs. Others sharply reflect changing fashions (e.g., "punk" fashion). However, some inexpensive items are characterized by low standards of processing and design.
Typical price range:	¥300-500
Imports:	Products from the NIEs are very common.
Sales channels:	Volume sales stores, street sales, souvenir shops, other stores selling miscellaneous goods
Other:	Materials and designs tend to be short-lived. The typical product cycle is very short, and once a fad has passed inventory must be either returned or destroyed.

Characteristics of the market for bridge jewelry (inexpensive fine jewelry, including silver products) are as follows:

Buyers:	Working and married women in their late-twenties, thirties, and forties.
Wearing occasions:	Worn as an inexpensive alternative to fine jewelry in the office, at parties, and other gatherings. Often worn together with a number of other pieces.
Materials and design:	The main materials include combinations of gold and silver, silver and other precious metals, and semi-precious stones. Compared with traditional fine jewelry, these more casual pieces tend to be large (due to lower material costs) and use novel

	designs. Generally, however, designs follow the trends for fine jewelry.
Typical price range:	¥10,000-30,000. ¥15,000-20,000 for Japanese pieces and ¥20,000-30,000 for imported pieces.
Imports:	These products are imported from the United States, Italy, Denmark, Spain, Hong Kong and Thailand.
Sales channels:	Mainly department stores and boutiques. In recent years an increasing number of pieces are being sold by mail order.
Other:	A small group of fashion-conscious younger women forms the main buyership. Young men also purchase them as gifts. Sales of Tiffany silver products costing about ¥20,000 as gifts have been rising.

2) Production and distribution system

The basic distribution channel for costume jewelry is as follows: processors (with various subcontractors) --> assemblers --> wholesalers --> retailers. Recently, some processors have established direct ties with wholesalers or retailers, and many assemblers are forgoing the wholesalers in their business with retailers.

The leading retailers are department stores, which use their wide display space and large product lineups to attract upmarket customers. Next are the chain stores located in shopping centers. Some of these stores handle both fine jewelry and costume jewelry. Third on the list are the "total fashion stores," which carry clothing, belts, bags, and costume jewelry with an emphasis on coordination. These stores attract customers through their fashion sensibility. Fourth are the volume sales stores, which sell hair ornaments and other inexpensive items mainly to younger buyers. Other retailers now dealing in costume jewelry include hobby shops, cosmetics stores, and gift shops.

Most manufacturers are from micro-sized to small and medium-sized businesses, and the subcontractors have established a division of labor by parts, assembly, materials and processes (gemsetting, carving, brazing, plating, etc.).

Costume jewelry in Japan has the following characteristics:

1. Fashion is emphasized, and subjective elements like color, pattern and design are important and vary according to trends and season.
2. Product life cycle is very short (typically about three months) and items cannot be sold the following season.
3. Seasonal changes and trends result in severe fluctuations in demand.

It follows that products are completely worthless after their product life cycle has finished. Thus, there are risks involved in production and sales. Most firms have adapted flexible manufacturing systems, and the industry itself is characterized by a flexible division of labor that has developed naturally over the years in response to this.

(2) Imports

Recent years have seen a sharp rise in costume jewelry imports as local producers have been unable to keep up with increased demand. Growing demand resulted from 1) the need for large product lineups to respond to the diversification and individualization of consumer needs, and 2) growing demand for distributors' stock, caused by the entry of firms from other sectors and the expansion of retail floor space. Other factors behind the increase in imports include consumer yearnings for traditional European products, technical improvements by Asian manufacturers, labor shortages in Japan, the

appreciation of the yen and the rollback of import duties, and the abolition of the commodity tax in 1989.

Japanese imports of fine jewelry, mainly gold, platinum and silver products, amounted to ¥129.5 billion in 1990, while imports of costume jewelry, usually plated with precious metals, totaled ¥22.3 billion. These figures represented growth of 7.1-fold and 4.2-fold, respectively, over 1979.

Based on value, non-precious (base) metals accounted for 62.9% of all 1990 imports, natural materials for 4.3%, plastics for 2.5%, and other materials for 5.2%. Combs and hair ornaments were responsible for a sizeable 24.3% of all imports, reflecting the ongoing two-to-three year boom in these items. Imports of elephant tusk have been prohibited under the Washington Treaty: Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), and tortoiseshell imports will be banned starting from 1993.

The main suppliers were R. Korea, with ¥4.18 billion, the United States, with ¥4.00 billion, France, with ¥3.31 billion, Taiwan, with ¥2.63 billion, (West) Germany, with ¥1.94 billion, and Italy, with ¥1.43 billion. Each of these countries is viewed as a source for certain types of products. (See Table IV-1-3 and VI-1-4)

Base-metal products from R. Korea dominate the low end of the market. The import unit price was ¥8,000/kg for precious metal-plated items and ¥3,000/kg for other products. Unplated base metal items from R. Korea are mainly semi-finished products. R. Korea also garnered a major share of the comb and hair ornament sectors (especially those not made of hard rubber or plastic).

Taiwan maintains a large share of the low-end market (¥4,000/kg) for plastic products. It ranks with R. Korea as a leading supplier of combs and hair ornaments. Taiwan is also the leading supplier of carved or crafted coral and other animal materials, although imports were limited to ¥88.95 million (¥7,800/kg).

Imports from Hong Kong consisted mainly of inexpensive base-metal products and chains in particular. Relatively high-priced wooden items (¥88,000/kg) and products made from carved or crafted animal materials like horn and claws (¥62,000/kg) were also imported.

Imports from the Philippines were valued at ¥162.48 million, with combs and hair ornaments (not made from hard rubber or plastic) accounting for 36.3%, products using at least two kinds of natural materials for 31.0%, wooden products for 14.6%, and products made from carved or crafted animal materials for 10.0%.

Base-metal products plated with precious metals accounted for 85.3% of all imports from the United States, with products falling into the mid-market range (¥42,000/kg). This figure is one-half to one-third the import unit price for France and Germany but five times that of R. Korea.

In general, imports from France were destined for the upmarket sector. Base-metal products plated with precious metals accounted for 58.1% of all imports, combs and hair ornaments (hard rubber and plastic) for 17.9%, base-metal items (not plated with precious metals) for 8.7%, combs and hair ornaments (not made from hard rubber or plastic) for 5.5%, and plastic items for 4.6%.

For Germany also, base-metal products plated with precious metals accounted for 76.3% of all imports, and products were of the highest grade (¥102,000/kg). Combs and hair ornaments were responsible for 14.7% of imports.

With the exception of cameos and other products made from carved or crafted animal materials, most imports from Italy fell into the midmarket range. Most products were base-metal, with precious metal-plated items (¥58,000/kg) accounting for 52.8% of imports and other base metal items (¥47,000/kg) for 11.1%. The relatively small differential in unit price between products plated with precious metals and unplated products and products plated with non-precious metals was due to the fact that both are imported as finished products.

The same is true of base-metal products imported from Austria (¥58,000/kg for precious metal-plated goods and ¥63,000/kg for products plated with non-precious metals). In many cases the products plated with non-precious metals use glass stones, making the unplated items more expensive.

In July 1991 a questionnaire survey concerning interest in imports was distributed to 151 Japanese assemblers and wholesalers likely to conduct import transactions and having the capability for technical instruction. (See Annex VI-1) According to this survey, the main reason for importing costume jewelry was "low production costs" in the case of Taiwan, Hong Kong and R. Korea but "materials" in the case of the Philippines. "Design" was emphasized in purchases from Italy and the United States. (See Fig. IV-1-1)

(3) Products for the Japanese Market and Features of Export Business to Japan

In Japan there are different types of imports corresponding to the various stages of processing and distribution. They include the special materials imported by individual specialist processors, the parts and semi-finished products imported by assembler/manufacturers, and the finished products imported by wholesalers with product planning capabilities and operational mobility in an attempt to achieve greater variety in their product lineups.

Japan has only a short history of importing accessories. The Japanese industry is set up based on the principle of meeting demand with local production, and structures are in place to allow flexible production and distribution of products with short life cycles. In recent years, however, some department stores have engaged in direct imports to boost the variety, and particularly the high end, of their product lineups.

The following points concern products for the Japanese market and features of export business to Japan.

1. **Marketability of materials:** The main upmarket natural materials in use are coral, tortoiseshell, ivory, amber, and freshwater pearls, while inexpensive varieties include wood and shell. The Washington Treaty: CITES, however, brought an end to imports of ivory and tortoiseshell (starting in 1993). Careful finishing and the use of metal fittings suited to the product level are necessary. In the case of low-priced products, efforts need to be directed toward cost cutting and research in the areas of materials and design which follow market trends.
2. **Quality control and inspection:** In order to meet Japan's stringent quality standards, a sense of responsibility among workers and a system of checks are needed throughout the production process, from the processing of raw materials to final finishing. In Japan, defects on product quality discredit the name of the brand or company. Therefore, great efforts are made to deal with claims and track down the cause of the problem to prevent it from happening again. Exporters should carry out systematic quality control measures and inspections based on a full understanding of

the given specifications. Areas needing special attention include size, fading, adhesive strength, metal fittings, finish (including color, balance and feel), and uniformity.

3. **Delivery time and communication:** 60 days is the typical delivery period. According to one Japanese agent operating in the Philippines, manufacturers are given two to three weeks for a final delivery time of 30-35 days. This gives 10-15 days to spare and takes into account possible delays due to bad weather. Although strict observance of delivery dates goes without saying, the buyer should be notified as soon as possible when it is expected that his sales (shipment) plans may have to be delayed.

When doing business with Japan earning the buyer's trust and building a solid partnership is most important. Fast and sincere response to inquiries is more important than cutting communication costs, and daily communication is also required. This will lead to more business opportunities in the future.

4. **Transaction lots:** In reflection of the local market, the typical lot size in Japan averages 3-5 dozen even for large wholesalers, with a maximum of 10-30 dozen. For producers, the first production run for products with a retail price of ¥1,000-5,000 is usually about 200 units, ranging to 500-600 units for items costing ¥300-500. Additional runs are made in accordance with demand. Each step in the production process has its own parts inventory, and product inventory is kept to an absolute minimum.

Since unsold imports cannot be returned, importers bear the risk for all inventory. Order size is therefore limited to the necessary quantity plus a margin for defective items. Imports, whether they are from developing or industrialized nations, are purchased only as a means of filling out existing product lineups. For major import products, the manufacturer either obtains a license for local production or else imports the necessary materials and components for assembly in Japan. This is because of the emphasis placed on manufacturer responsibility and corporate trust in the Japanese industry, together with the fact that making use of the flexible Japanese production system presents fewer risks.

5. **Development of designs and materials:** Japanese schedules for orders, production and shipment are tight. Because of delivery time constraints and the time and effort required for alterations, orders to foreign suppliers must be limited to alterations of existing designs. Thus foreign manufacturers and exporters must develop their own designs in line with current fashion trends, allowing Japanese buyers to select the items they need from a wide selection. Buyers are attracted by originality and novelty.
6. **Distribution:** Japanese distributors operate around target markets defined by age group or lifestyle. Unless distributors who deal in the overseas maker's or exporter's type of product are approached contracts will not be able to be achieved. Philippine costume jewelry is presently suited to the inexpensive market for younger buyers (teenage through early twenties). Assembler/manufacturers and wholesalers (importers), both of which have excellent access to retailers with an appeal for younger buyers such as boutiques, volume sales stores, and other stores selling miscellaneous goods (hobby shops, gift shops, etc.), need to be approached.
7. **Exhibitions:** Many exhibitions related to costume jewelry are held both by industrial associations and by individual firms. Only member firms are permitted to participate in exhibitions conducted by industrial associations. There are two types of trade fairs for costume jewelry related products held on a national level and in which overseas manufacturers may participate.

1) The Japan Fashion Goods Fair (JFG)

Sponsor: The Japan Fashion Goods Fair Association

Address: c/o Japan General Merchandise Promotion Center, 15 Fl. Sunshine 60, 3-1-1 Higashi Ikebukuro, Toshima-ku, Tokyo, 170.

Tel: 03-3987-1231 Fax: 03-3987-1238

When held: June each year (No plan to hold in 1992)

Where held: Japan Convention Center (Makuhari Messe)

About the fair: All types of fashion-related products are displayed at the fair which targets wholesalers, importers and other distributors as well as the general public. In 1990 47,747 people visited the fair.

2) World Fashion Trade Fair (WFTF)

Sponsor: The Association of Total Fashion

Address: c/o Osaka Chamber of Commerce and Industry, 58-7 Hashizume-cho, Uchihonmachi, Higashi-ku, Osaka, 540.

Tel: 06-944-6207 Fax: 06-944-6209

When held: March each year

Where held: International Exhibition Center, Osaka (INTEX Osaka)

About the fair: Begun at the suggestion of the Ministry of International Trade and Industry, WFTF is the world's first comprehensive fashion trade fair. In 1990 60,682 people visited the fair.

In the questionnaire distributed to Japanese corporations as part of this survey, the following supplier-related problems were noted with import transactions: inadequate quality control, 25.7%; uncertain delivery schedules, 24.7%; and inability to adapt to small-lot, short-cycle production, 17.2%.

(4) Imports of Philippine Costume Jewelry in the Future

The results of the above questionnaire survey will be described in detail below.

Concerning future plans to import, 13 of the 50 respondents (26%) indicated that they had no such plans despite having imported in the past. When the question was further broken down into materials (components), products, and licensed processing, 24 (48%) of the firms indicated they had no such plans for licensed processing, while six said they hoped to "actively promote" such imports. Virtually the same results were obtained for imports of materials (components) and finished products. Just under 20 of the firms said they hoped to "actively promote" such imports, while just over 10 indicated that such plans were currently being studied. Some firms responded that study of such plans "would be possible." However, necessary conditions noted by these firms included small order lots, prompt delivery, and mutual trust.

In response to a question concerning the information they would like to have when considering imports from the Philippines, 26.2% of the respondents indicated "production costs," 25.0% "the raw material situation," 16.2% "local company

information," and 13.8% "the current state of the export environment." Relatively little interest was expressed in "wages" (5.0%), "the investment environment in export processing zones" (2.5%), and "investment incentives" (1.3%). Thus it can be seen that Japanese firms view the Philippines primarily as a supplier of materials.

Concerning "hand-made items using natural materials" and "coloring schemes," however, Philippine products are superior to competing items from other Asian nations. Buyers look to the Philippines when they have to purchase these materials and products. The market segments open to traditional Philippine products, which have earned a reputation as "rustic craft items made from natural materials," are extremely limited in number, and even these segments are small in size and vulnerable to fashion trends. Product development and marketing by the Japanese industry focuses on very small target audiences, and so a limited to firms dealing in Philippine materials and products are successful on the young market, or firms are interested in natural materials.

In the past there was a clear dividing line in the Japanese jewelry market between fine jewelry, which emphasized lasting value, and costume jewelry, which emphasized fashion trends. Increased imports of fine jewelry, reflecting the appreciation of the yen during the late 1980s, combined with the abolition of the commodity tax in April 1989 to make fine jewelry more affordable and also helped to promote sales of upmarket costume jewelry. At present, the costume jewelry market is dominated by base-metal products, especially those plated with a precious metal.

In order for the Philippine costume jewelry industry to increase its exports to the Japanese market it is absolutely essential that these expanding markets be entered. In order to achieve this the industry must develop the capacity to respond to the needs of this market in areas of design, materials and quality.

Those firms who have imported from the Philippines gave high ratings to the dexterity of Philippine craftsmen, as seen in etching, carving, and inlaying work, and their unique color schemes, which cannot be found in Japan. However, because of problems with the products themselves, such as insufficient quality control (low quality standards), poor finishing (lack of detailed finishing), and the difficulty of obtaining high-quality materials (metal components, adhesives, paints, etc.), they can only order a limited number of designs and products. Other problems in terms of business practice pointed out by some Japanese importers included a lack of sufficient production capacity to fill orders, delays in delivery, defective products, delays in response (including no answer) by phone or facsimile (poor communications), and a refusal to accept small orders. It is also essential for manufacturers or traders to make efforts at gaining contact with buyers in markets which they intend to enter in the future as well as buyers already interested in Philippine products.

1-3 The U.S. Market

(1) Market Profile

The U.S. market for costume jewelry (excluding precious metal and precious metal-plated products) began a course of steady expansion starting in the mid-1980s and by 1989 had grown to \$2.1 billion. Reasons behind this growth included the following: (1) changeover demand from the fine jewelry market resulting from economic factors such as inflation and high interest rates; (2) the increase in working women with full-time jobs; (3) increased expenditures on basic clothing that is expensive but can be worn for years, resulting in greater expenditures on costume jewelry; and (4) the influence of TV anchorwomen wearing costume jewelry in an attractive manner. Although market growth is expected to slow in 1991 due to the recession, industry observers are still predicting growth of up from 0% to 15%.

Imports alone surged from \$241 million in 1980 to \$800 million in 1989. (See Fig. IV-2-1) Dependence on imports increased during the same period, from 17% in 1980 to 27% in 1986 and 35% in 1989. However, the costume jewelry industry feel that similar increases will be unlikely in the 1990s due to an unclear forecast for the U.S. economy and intensified competition from local manufacturers.

The U.S. market for costume jewelry can be broadly divided into four sectors: high-end, bridge, low-end, and novelties.

1. High-end: Elegant, fashionable pieces using base metals plated with precious metals or semi-precious stones (retail prices of \$200 and up). Buyers include working women with a preference for fine jewelry and wealthy women wearing it for travel or shopping. Many of these pieces are purchased as gifts, and the market is quite large.
2. Bridge: Mid-market pieces sometimes using silver or pearls (retail prices ranging from \$15 to \$200, with most priced at under \$100). The main buyers are working women, although these pieces are also purchased as gifts for younger women and teenagers.
3. Low-end: Inexpensive (less than \$15) items made from base metals, glass, imitation pearls, plastic, paper and other artificial materials or natural materials like bone, wood, or shells. This is the largest single market.
4. Novelties: Inexpensive wristlets, buttons, pins, and hair clips, often with a humorous touch. The smallest market segment.

Low-end and novelty items have a broad consumer group that disregards age, income, and occupation. Manufacturers are working to improve quality and design and aiming towards the markets for bridge and high-end costume jewelry. The low-cost market for products retailing for less than \$30 features the most intense competition between U.S. and Asian manufacturers. Taiwan, R. Korea, and Japan are responsible for 75% of all imports.

Department stores account for 30 percent of sales of accessories, discount stores 25 percent, accessory specialty shops 15 percent, apparel shops 23 percent and direct sales (including mail order sales) for 7 percent.

1. Department stores: Jewelry and accessories account for an average of 10% of total department store sales. The major department stores include: J.C. Penny, Nordstrom's, Macy's Northeast, Sears Roebuck and Macy's of California.
2. Discount stores: Accessories account for 4.5 percent of sales at discount stores and this share is tending to expand. This is a result of efforts to increase sales and profits for accessories per area of floor space. Major discount stores include K Mart, Wal-Mart, and Target Stores.
3. Accessory specialty shops: Many of these specialty shops are located in shopping malls. Claire's Stores associated firm Claire's Boutiques trades under three names, Claire's, Topkapi, and Dara Michelle. Each targets a different market. Total income for Claire's Boutiques is \$255 million. It has 831 stores and is the top accessories retailer.
4. Apparel stores: These include general and discount apparel stores. They account for 12 and 11 percent of total costume jewelry sales in the U.S. respectively. The Limited, Inc. group which owns The Limited Stores, Victoria's Secret and Abercrombie & Fitch has a total of 3,864 shops. Its sales total \$525 million and accessories account

for an average of 10 percent of sales. However in other apparel stores, accessories generally account for between 7 and 8 percent. Major discount apparel stores include TJX Inc. (includes T.J. Maxx) and Marshall's.

5. Direct sales: These include mail order and catalog sales. Avon, a leading cosmetics firm is an example of one such firm.

(2) Imports

U.S. import statistics are divided into costume jewelry and precious metal jewelry, which includes precious metal and precious metal-plated products. Precious metal jewelry is categorized in fine jewelry. Imports of costume jewelry are valued at just over one-fifth those of fine jewelry. (See Table IV-1-5)

Imports of fine jewelry and costume jewelry have increased steadily at an annual growth rate of almost 7.0 percent over the 4 years from 1986 to 1990 (However, these statistics were based on the Standard International Trade Classify).

Imports of costume jewelry totaled \$461.38 million in 1990. The main items were non-metal products (57.8%) and semi-finished base metal pieces (39.7%). (Based on the Harmonized Commodity Description and Coding System. Below same.)

Imports from Central and South America were insignificant. Half of the market for imported costume jewelry was split up by R. Korea (27.8%) and Taiwan (22.4%), with both countries posting 7% growth over the previous year. Imports from China, with a 10.2% overall share, surged 66.0% over the previous year, due mainly to increased purchases of non-metal products. Imports from the Philippines, with a 4.4% share, and India, with 3.2%, dropped 4.9% and 10.9%, respectively, reflecting reduced shipments of non-metal products. Imports from Thailand (3.3%) edged up 1.3% over the previous year, the result of lower shipments of non-metal products and higher shipments of semi-finished base-metal products.

The trend in favor of importing raw components from outside and then processing these domestically is growing stronger. This has been thought necessary in order to facilitate design changes and to respond to shorter delivery periods and thus strengthen competitiveness. Moreover, due to increased labor costs, makers in the U.S. and Europe have begun to emphasize the production of expensive goods of high quality.

(3) Import Transaction

1) Types of import transaction

Imports take the form of 1) direct purchases at overseas factories and exporters, 2) purchases through local agents, 3) purchases through U.S. affiliated importers or manufacturers, 4) direct purchases from overseas makers. Importers (buyers) who purchase products at overseas factories and exporters already have information regarding local suppliers, and have business relationships with them. Leading chain stores discover makers which make products to be sold under the chain store's brand name through direct overseas purchases. Many buyers overseas choose to conduct such business because they like the culture of the particular place. Overseas purchases are estimated to account for 10 percent of total imports.

Because local agents conduct their business on a long term basis, they are able to keep constant checks on the progress of production and on quality as well as complete export documents and customs procedures quickly and efficiently. The use of agents brings about a 10 to 15 percent increase in costs. Imports conducted through agents

account for 40 percent of the total. Dealing with one agent is in practice easier than dealing with a number of different suppliers.

Importers with bases in the U.S. and positive results with makers from the exporting country are used when particularly small amounts are imported. Direct purchases from overseas makers are restricted to purchases from major overseas manufacturers with showrooms or offices as well as permanent staff in the U.S.

2) Orders and ordering methods

Periods for placing orders have been generally broken into spring/summer and fall/winter. However, in recent years, orders have come to be placed whenever necessary. This reflects more rapid changes in fashions in recent years and increasingly fierce competition between both buyers and retailers. Orders are usually placed between 3 and 4 months prior to the particular season.

Orders are placed for either designs specified by the buyer or for items in makers' catalogs. They account for 40 and 60 percent of orders respectively. However, as the copying of other makers' products is widespread, the accuracy of these figures is not certain.

3) Exhibitions

In the U.S. the "Fashion Accessories Exposition", a large scale exhibition is held twice yearly: in January goods for the spring/summer are displayed, and winter/fall season items are displayed in May. (See Table IV-1-6) The largest buying periods are Christmas followed by Mother's Day. Products for the Christmas market are displayed at the May exhibition and, as a recent trend, Mother's Day items are introduced at the one in January.

"Cash and carry" exhibitions, now held at the end of each season, respond to another important purchasing trend. These exhibitions, held close to the new season are popular with buyers as they allow them to forecast fashion trends and well selling items more accurately.

(4) Evaluation of Philippine Costume Jewelry in U.S. Market

To be successful, costume jewelry must combine the following elements: (1) appeal in terms of design, style, and coloring; (2) combination or novelty; (3) trendiness; and (4) a price low enough to encourage impulse buying. Low price alone is no longer enough. In addition, styles, materials and price ranges change rapidly, and the life cycle of hit products is very short. The evaluation of Philippine costume jewelry in U.S. market is as follows:

1. Flexibility in pricing and business dealings:

Most Philippine products target the low-end market. Although this segment is very large, competition between Asian producers is intense. Trendy styles are needed, but designs often suffer due to cost constraints. Manufacturers must be flexible in working with a given price range and product category.

2. Target market:

At present Philippine products depend heavily on low cost for their marketability, but cost competitiveness is gradually being faded. If the Philippines is to secure its own niche in the low-end of the U.S. market, unique products will be needed.

The Philippines will have to satisfy the following conditions in order to penetrate the high-end market. First of all, the workmanship must be improved by using more expensive artificial materials and more complex production processes. Also, the high-

end market should not be approached until producers are capable of consistently meeting delivery dates.

3. Setting of prices:

In Taiwan and Hong Kong, the prices asked for similar products by different manufacturers vary only about 25%, while in the Philippines the difference can run as high as 300%. Companies also provide large discounts depending on negotiations; reductions from \$10/dozen to \$3/dozen, for example, are not uncommon. Stories like these tend to create a mood of distrust and animosity among U.S. buyers and importers. Prices should be calculated based on actual production costs and a reasonable margin.

4. Quality and design novelty and originality:

When looking for new products, buyers tend to prefer products priced accordingly for their design and quality to products in specific price ranges. Fashion accessories appeal to consumers by being trendy, not by being cheap. In the case of the Philippines, a greater variety of materials should be used along with more elaborate processing techniques.

Further enhancement of Philippine strengths, typified by the quality of design and an abundant supply of unique natural materials, will require continued development of new designs. This will require cooperation with leading designers having access to the latest fashion information along with improvements in workmanship and technology. Joint ventures with companies from the industrialized nations (Germany, Italy and France for design and Japan for technology) would be effective in realizing this, and therefore government and industry will have to play leading roles.

5. Imitation products:

Unique designs are of paramount importance for designers and manufacturers. Imitation products run rampant in the Philippines, and the copies are often of poor quality. This is one of the reasons why buyers prefer components over finished products when ordering from the Philippines. In order to approach high-end markets, education will be needed to encourage responsible practices and preserve the integrity of supplied designs.

6. Prompt delivery:

In addition to developing new designs, manufacturers must respond quickly and decisively to new fashion trends. When looking for new manufacturers, buyers emphasize the speed of production and deliveries.

It is difficult for buyers to predict hit products, and in order to reduce risks they tend to make frequent orders of small lots while maintaining a small inventory. Even U.S. manufacturers are being asked to shorten the time required for production and delivery. In a country like Taiwan, the existence of strong supporting industries and a trustworthy subcontracting sector makes it possible for firms to produce smaller orders and shorter delivery times. The Philippines also need closer ties with subcontractors and the promotion of supporting industries. All buyers indicated the problem of delivery times in their dealings with the Philippines, and appeared to be upset that Philippine manufacturers were not concerned about preventing shipment delays seriously as much as buyers. Emphasizing "final deadline" over and over is one of the basics of doing business with Philippine companies.

7. Thorough inspection of shipments:

Especially in the case of orders by specifications, the delivered items often vary substantially from the original order. This is because Philippine suppliers have yet to understand the importance of collation with the provided specifications.

This is also why agents based in the Philippines and importers with a great deal of expertise are often hired. They inspect for quality and precision during production and again at the time of shipment.

8. Improved processing quality:

The Philippines are highly rated for the processing of shells, bone, paper, dyed lumber, etc., but there are problems in terms of production and quality when it comes to specific components or designs. In particular, regarding items with designs using metal fittings and/or metallic components, Philippine costume jewelry is inferior to that produced in Thailand and Indonesia in terms of product quality. In the area of wood carving, China, Indonesia, and countries in Latin America are able to provide more careful and detailed workmanship.

One effective means of resolving this problem would be training programs and joint ventures with firms from more experienced countries. Improved workmanship will increase the final product price and allow the penetration of higher-end markets.

9. Use of high-quality metal fittings:

Metal fittings are used in assembly and joining. They are more than simple components, however, since designers will often modify styling or tone because of them. The Philippines produce almost no metal fittings, forcing manufacturers to rely on imports. This contributes to delayed shipments and increased costs and hurts competitiveness; it is also one of the reasons why buyers regard the country as a supplier of assembly components and certain low-priced products. Tariffs should be reduced and import procedures speeded up. Localized production of quality metal fittings is also needed.

10. Promotion of technology transfer:

The development of products and markets will require the transfer or development of advanced technologies. Possible suppliers include Taiwan and R. Korea. Although both of these countries have adequate technical standards, labor costs are already at high levels and are still rising. In the coming years they are likely to turn their attention to the Philippines with its abundant supply of labor and materials.

11. Sales promotion activities:

More aggressive sales promotion activities are needed, including the following: (1) promotion of exports in cooperation with governments and industries in countries and areas such as Taiwan, Singapore, Hong Kong and Japan; (2) distribution of company lists containing the names and company profiles of manufacturers and suppliers; (3) selection of distribution channels suited to the size and resources of each manufacturer; and (4) the establishment of showrooms and sales offices in major cities in the U.S. including New York at the company, industry, or government level.

1-4 The U.K. Market

(1) Market Profile

1) Size of market

Between 1985 and 1990 apparent consumption for clothes rose by 66% and the value of costume jewelry producers' shipments was estimated at £87.6 million (Equivalent to US\$158 million) at current prices. However, demand for costume jewelry fell 9% in 1990 because of the recession after a period of sustained and rapid growth during the previous four years. (See Table IV-1-8)

2) Product trend

During the mid 1980s, the image of fashion jewelry was transformed from a low value positioning to become a high fashion, high value product, with pieces costing several hundred pounds each. This was influenced by the rising trend to mean jewelry as a fashion accessory, and the trend set by rich and famous style leaders. Butler and Wilson's jewelry, for example, was advertised by a number of famous personalities wearing its upper market range items. In recent years, the sector has also benefited from the popularity of ethnic and bold jewelry as fashion statements. At present there is no particular fashion except that everyone agrees that artificial pearls are very popular.

Costume jewelry tends to be more delicate and sophisticated. Leading manufacturers frequently change their ranges and collections. No one style or type of product dominates. This very much reflects the fashion clothing market to which costume jewelry is closely linked. Costume jewelry can be segmented into three identifiable price sectors, with each of these price band sectors catering for different categories of consumers, as follows:

1. £30 to £650 e.g.(US \$54-1,170): High-end items with famous brand names such as the Attwood Collection, the Swarovski Selection, the Gem House Range, Dior, Marie Claire and Guy Laroche (Fontaas of France)

The top end of the market starting at £30 accounts for an important share of total market value but has a small volume share. It is actually competing with the lower end of the fine jewelry market. It is able to do this on the basis of quality and really good design.

2. £5 to £30 e.g.(US \$9-\$54): Intermediate items with famous brand or designer names such as Napier, Rosita Pearls, Corocraft, Monet, Adrien Mann, Pierre Cardin.

As they develop and start to earn their own money they are able to move further upmarket into the £5 to £30 sector, from around the age of 16 onwards. This is where branding and named ranges begin to arise.

3. Under £5 (US \$9): Mostly unbranded products on hanging display cards such as plastic earrings and little brooches. Some of these products sell for as little as 90p.

The under £5 sector which accounts for a considerable proportion of volume but much less of value sales is mainly bought by very young teenage girls. When they are in the 12-15 age group they can only afford very cheap items.

The British Jeweller (June 1991), an industry magazine pointed out that costume jewelry is increasingly seen as a fashion necessity. Therefore designs change as frequently as the seasons and clothes trends dictate.

Manufacturers market whole design concepts as expressed in their collections and these are heavily influenced by the clothing fashion industry and perceptions of consumer demand.

Brooches are said to be popular all the year round as a gift purchase. Necklace and earrings are bought by women to go with new outfits. Costume jewelry, especially the more expensive items is bought as gifts by both women and men. The gift buying season is heavily concentrated upon the last quarter of the year which is, of course, the Christmas present buying season.

(2) Imports

Over the period 1985 to 1990 the importation of imitation jewelry (including synthetic and reconstructed precious or semiprecious stones) rose 42% in value to £74.7 million (C.I.F. Equivalent to US \$134 million).

Imports of imitation jewelry made of base metal, whether or not plated with precious metal, come from two major sources, namely, the Far East principally Hong Kong, R. Korea and Taiwan and the EC countries, of which the Irish Republic and Germany (formerly West Germany) are the leading countries. (See Table IV-1-9).

Much of what is imported from the Far East is relatively cheap and tends to be unbranded. Importers say they buy on price. While Hong Kong is still fairly competitive, R. Korea and Taiwan prices have been rising in recent years as labor costs have risen. Importers have been looking for other Far Eastern sources. Mainland China and Thailand are likely to become important in the future.

Each year EC countries account for 26% to 28% of imports of imitation jewelry of other non-precious materials with France, Germany, Italy and more recently Ireland as the principal European sources. Czechoslovakia has a well established cut glass crystal industry and is the main source of costume jewelry featuring crystal. However, it is the Far East which is the leading area of the world for costume jewelry of this kind. Hong Kong again is the main exporting country with Taiwan, India and the Philippines also as major exporters. (See Table IV-1-10)

(3) Distribution

Costume jewelry is a market controlled by the retail traders rather than by manufacturers, wholesalers or importers. The distribution chain nevertheless includes manufacturers and importers, wholesalers and retailers. Importers often act as their own wholesalers. Importers obviously play an important role since imports account for around 80% of total market sales in value terms. Many wholesalers have gone out of business in the past ten years because many importers and manufacturers have cut out the middle man and deal directly with the retail trade. As a consequence, those wholesalers that have survived have done so by switching their emphasis from wholesaling to importing costume jewelry. Many manufacturers now deal directly with the retail trade and operate small sales forces where required.

The British Jeweller & Watch Buyer Year Book 1991 lists 25 importers of fashion or costume jewelry, most of these are also wholesalers.

Each supplier has his own arrangements and these may well depend on the quality and type of product as well as long established relationships. The retail trade is able to obtain very high markups. Discussions with manufacturers, importers and retailers produced estimated ranging from 200% to 300%.

Thus the supply chain is very short. Retailers obtain their supplies either directly from U.K. manufacturers or directly from importers who act as their own wholesalers. Importers tend to obtain their low cost volume supplies from the Far East and more expensive products from Europe including Czechoslovakia. There is no evidence of importers specializing in supplies from one specific country or source. The reason for this is the fashion nature of the costume jewelry market which requires frequent changes of design and style. Single country specialization would be too risky.

It is important to understand the structure of U.K. retail trade which dominates the costume jewelry market. Unlike fine jewelry which has 80% of its sales through

specialist jewelers, department stores are the principal outlets for top class and medium price costume jewelry i.e. from £5 upwards.

Being very much a fashion item it is essential for new market entrants to be familiar not only with the latest trends in costume jewelry in the U.K., but also the latest women's clothing styles. It is also important to establish a strong brand with a reputation for unique styling. The "Collection" concept covering a full product range is the right way to gain access to the leading department stores. However, a very flexible approach is required with regard to materials and colors because demand can change in a matter of months.

Table IV-1-1: Classification of Costume Jewelry Market *1)

Market Classification	Features	Materials Used	Other Features in:	
			Japanese Market	U.S. Market
Fine Jewelry	For formal use at parties and formal visits, and for gifts; by rich women and working women.	Gold or platinum; with precious stones	20,000 yens or over	
Bridge Jewelry *2)	For formal use at parties and formal visits, and for gifts; by working women and students of upper 10s to lower 30s.	Silver; with 10K gold, precious stones, or pearl	- Attached with licence brand; 3,000 - 15,000 yens	
Costume Jewelry	Class A (High-end)	Non-precious metals (white metal) plated with precious metal; attached with pearl, rhine stone, synthetic precious stone	- Mostly imported goods from European countries; 20,000 - 50,000 yens	US\$200 or more
	Class B (Intermediate)	Non-precious metals (brass & alloy) plated with precious metal; attached with low cost synthetic precious stone like colored glass	- Attached with apparel brand; 4,000 - 10,000 yens	US\$13 - 200 (bridge jewelry *2)
	Class C (Low-end1)	- Non-precious metals plated with non-precious metal - Chemical metals (plastics) - Natural materials (wood, shell, bamboo, horn, etc.)	- Short life cycle - No brand name 2,000 - 5,000 yens	Under US\$15
	Class D (Low-end2)	For souvenir or personal adornment including hair ornaments, buttons, and key holders, etc.	Low cost materials including: - Non-precious metal - Chemical materials (plastics) - Natural materials (wood, shell, bamboo, horn, etc.)	100 - 1,000 yens

Notes: *1) The classification for this specific purpose; various market segmentation prevails depending on markets and types of distributors.

*2) The concept of Bridge Jewelry in the U.S. is different from that of Japan.

Table IV-1-2: World Trade of Costume Jewelry

Import						
	Unit: Thousand US Dollars					
	1983	1984	1985	1986	1987	1988
U.S.	211,128	414,371	505,885	504,635	527,899	558,107
France	50,724	53,217	67,604	114,713	125,153	133,180
U.K.	42,197	59,993	64,349	88,338	109,706	125,106
Japan	39,158	44,078	45,571	77,846	122,517	225,359
W.Germany	35,450	35,240	39,849	66,949	99,580	121,637
Asia	117,875	126,748	142,180	208,945	321,853	453,571
Europe	246,687	263,117	324,787	527,758	709,067	770,999
Americas	246,817	459,980	566,802	583,476	603,432	620,021
Others	32,312	34,092	34,426	40,549	51,536	55,696
World	643,691	883,937	1,068,195	1,360,728	1,685,888	1,900,287

Export						
	1983	1984	1985	1986	1987	1988
H.K.	98,648	143,048	190,374	225,465	288,031	321,397
Korea	51,686	71,690	101,207	143,016	193,617	258,687
W.Germany	52,149	53,142	68,263	102,516	118,603	174,788
Italy	37,759	40,207	54,094	79,630	95,227	107,801
U.S.	58,998	57,146	56,953	76,049	84,953	112,788
Japan	44,605	51,231	62,550	62,465	46,501	105,788
India	18,700	3,969	3,574	50,263	53,097	43,716
Thailand	4,289	4,809	5,081	12,143	23,700	32,843
Philippines	5,717	12,222	13,768	11,980	23,387	19,116
Asia	229,827	292,191	383,620	516,704	644,741	796,075
Europe	201,853	221,137	287,664	435,864	528,191	652,915
World	496,716	577,059	735,642	1,039,227	1,271,528	1,604,957

Source: UN International Trade Statistics Yearbook

Table IV-1-3: Japanese Costume Jewelry Imports by Asian Countries/Area, 1990

	Unit	R.Korea	Taiwan	Hong Kong	China	Philippines	India	World
Metal base	1000yen	1,895,019	604,023	508,032	127,705	8,119	33,897	13,992,042
	kg	416,695	70,057	139,273	48,650	627	7,381	891,196
	yen/gram	5	9	4	3	13	5	16
Combs & Hairclips	1000yen	2,021,057	1,510,876	69,140	256,982	58,297	11,263	5,393,409
	kg	568,943	378,543	17,868	56,896	7,089	1,219	1,205,154
	yen/gram	4	4	4	5	8	9	4
Other materials	1000yen	266,629	517,103	137,293	57,477	96,067	23,781	2,859,529
	kg	39,882	58,378	12,651	12,797	21,949	5,130	193,770
	yen/gram	7	9	11	4	4	5	15
of which:								
Plastics base	1000yen	29,296	86,221	20,505	36,432	6,767	438	548,350
	kg	4,241	22,354	5,749	7,232	312	18	48,527
	yen/gram	7	4	4	5	22	24	11
Woods base	1000yen	1,270	502	1,411	2,644	21,336	1,098	55,876
	kg	76	95	16	1,767	4,010	97	9,783
	yen/gram	17	5	88	1	5	11	6
Total	1000yen	4,182,705	2,632,002	714,465	442,164	162,483	68,941	22,244,980

Source: Japan Exports & Imports 1990

Table IV-1-4: Japanese Costume Jewelry Imports by Country, 1990

	Unit	R.Korea	U.S.	France	Taiwan	Germany	Philippines	World
Metal base	1000yen	1,895,019	3,749,849	2,213,504	604,023	1,513,613	8,119	13,992,042
	kg	416,695	102,184	19,286	70,057	15,235	627	891,196
	yen/gram	5	37	115	9	99	13	16
Combs & Hairclips	1000yen	2,021,057	84,897	776,204	1,510,876	291,536	58,297	5,393,409
	kg	568,943	11,905	88,898	378,543	41,328	7,089	1,205,154
	yen/gram	4	7	9	4	7	8	4
Other materials	1000yen	266,629	162,389	322,982	517,103	139,539	96,067	2,859,529
	kg	39,882	5,760	2,580	58,378	3,560	21,949	193,770
	yen/gram	7	28	125	9	39	4	15
of which								
Plastics base	1000yen	29,296	22,792	150,766	86,221	36,770	6,767	548,350
	kg	4,241	704	982	22,354	1,745	312	48,527
	yen/gram	7	32	154	4	21	22	11
Woods base	1000yen	1,270	1,088	2,510	502	4,350	21,336	55,876
	kg	76	131	24	95	540	4,010	9,783
	yen/gram	17	8	105	5	8	5	6
Total	1000yen	4,182,705	3,997,135	3,312,690	2,632,002	1,944,688	162,483	22,244,980

Source: Japan Exports & Imports 1990

Table IV-1-5: U.S. Imports of Jewelry

Unit: Thousand US Dollars

Country (Area)	Costume Jewelry		Fine Jewelry	
	(HS7117)	% of world	(HS7113)	% of world
R.Korea	128,451	27.8%	21,749	0.9%
Taiwan	103,219	22.4%	7,656	0.3%
China	46,875	10.2%	5,824	0.3%
Philippines	20,347	4.4%	1,170	0.1%
Thailand	15,264	3.3%	222,796	9.7%
India	14,616	3.2%	65,470	2.8%
Indonesia	3,207	0.7%	4,119	0.2%
Singapore	154	0.03%	5,059	0.2%
Mexico	6,139	1.3%	40,536	1.8%
Peru	798	0.2%	115,322	5.0%
Brazil	548	0.1%	15,660	0.7%
Dominican Republic	495	0.1%	76,061	3.3%
Others	121,263	26.3%	1,717,617	74.7%
World	461,376	100.0%	2,299,039	100.0%

Source: Department of Commerce, Bureau of the Census

Table IV-1-6: Main Exhibitions in the U.S.

Exhibition/Show	Location/Contact	Characteristics
Fashion Accessories Exposition (FAE)	(Jan.) Piers 88, 90, 92 New York, NY (Feb.) Shrine Expo Hall, Los Angeles, CA (May) Piers 88, 90, 92 New York, NY (Aug.) Javits Convention Center, New York, NY Phone: 203-852-0500	The largest accessories show in New York The shows for Spring/Summer and Fall/Winter held in Jan. and May Other shows: "Holiday/Resort market" in L.A. (Aug.) "Accessories-to-Go (cash-and-carry show)" in N.Y. (Nov.) 700-800 participant companies of which 65% is costume jewelry related companies 7,000-8,000 customers of which 77% made contract
Accessorie Circuit	Omni Park Central Hotel, New York, NY Phone: 212-759-8055	Compare with FAE, smaller sized show for higher grade product Held in Jan., May and Aug. 100 participant companies with 2,900 customers
Los Angeles Gift and Jewelry Show	Los Angeles Convention Center, Los Angeles, CA Phone: 213-747-3488	Large show for gift items Held in Jan. and July 20-25% of participants is costume jewelry related (about 175 firms) 30,000 customers
The New York Pret	Javits Convention Center, New York, NY Phone: 212-563-5350	Focus on intermediate to high-end items "Pret" shows are held all over the world Held in Mar. and Sep. No. of participants is unknown, 20,000 customers

Table IV-1-7: Key Industry Periodicals and Magazines in the U.S.

<p>Womens' Wear Daily FAIRCHILD PUBLICATIONS 7 West 34th. Street, New York, NY 10001 Tel: (212) 630-4000</p>	<p>Known as WWD, this is a daily fashion newspaper with 6,200 subscribers by far the most widely read publication in the fashion industry. WWD publishes an accessories report every Friday, and an accessories supplement called "A" seven times a year.</p>
<p>Accent Magazine ACCENT PUBLISHING CO., INC. Devon Office Center, 60 Chestnut Avenue #201 Devon, PA 19333 Tel: (215)293-1112</p>	<p>With average monthly circulation of approximately 15,000. Accent is one of the leading publications read by buyers. While its main focus is fashion accessories and jewelry, it does include fine jewelry as well.</p>
<p>Accessories Magazine BUSINESS JOURNALS, INC. 50 Day Street Norwalk, CT 06854 Tel: (203)853-6015</p>	<p>Accessories is the largest accessory magazine, with an approximate circulation of 20,000. It is geared exclusively towards the retail buyer of accessories and costume jewelry.</p>
<p>Fashion Accessories, an Asian Sources Magazine PUBLISHERS REPRESENTATIVES LTD. 22nd. Floor, Vita Tower, 29 Wong Chuk Hang Road, Wong Chuk Hang, Hong Kong Tel: 5554777</p>	<p>This monthly magazine focuses on the accessory industry in Asia and is aimed at informing buyers about products and suppliers in Asia. It's monthly circulation of 22,000. consists of wholesalers, manufacturers, retailers, and middlemen. It is the best source of current information about the costume jewelry industry in Asia.</p>
<p>Accessor-eyes LMB ACCESSORY SPECIALISTS, LTD 105 East 38th. Street, Suite 803 New York, NY 10016 Tel: (212)684-5610</p>	<p>This accessories-oriented newsletter is published 5 times a year, with additional reports issued from time to time. Circulation figures are not available.</p>
<p>Jewelers' Circular Keystone Chilton Way, Radnor, PA 19089 Tel: (215) 964-4464</p>	<p>This monthly publication is the oldest Jewelry-related magazine in the United States. While it is primarily aimed at the fine jewelry industry, its annual Directory and Almanac contains a full range of fashion jewelry demographics and statistics. It also contains a full directory of manufacturers, importers, sales representatives and suppliers.</p>

Table IV-1-8: Estimate Market Size for Costume Jewelry in the U.K.: 1985-1990

	1985	1986	1987	1988	1989	1990
Pound Million (M.S.P.)	52.7	66.6	75.9	89.5	96.6	87.6
1985=100	100	126	144	170	183	166
Year On Year % Change		+26	+14	+18	+8	-9

Source: M & E Consultants based on Government and Customs & Excise Data

Note: Based upon apparent consumption at manufacturers' selling prices

**Table IV-1-9: Imports of Imitation Jewelry in the U.K.: Base Metal
1988-1990, (C.I.F.)**

	1988		1989		1990	
	<i>Pound Mil.</i>	%	<i>Pound Mil.</i>	%	<i>Pound Mil.</i>	%
Germany	3.65	7	4.3	7	3.83	7
Ireland	7.46	14	8.7	14	6.98	12
Other EC	5.47	10	6.97	11	6.86	12
Total EC	16.58	32	19.97	32	17.67	30
Taiwan	7.62	15	9.69	15	7.57	13
Hong Kong	8.52	16	9.42	15	10.49	18
South Korea	8.24	16	8.8	14	7.53	13
USA	4.09	8	5.15	8	4.82	8
Other Countries	7.05	14	10.01	16	10.47	18
Total	52.1	100	63.04	100	58.55	100

Source: Overseas Trade Statistics/M & E Consultants

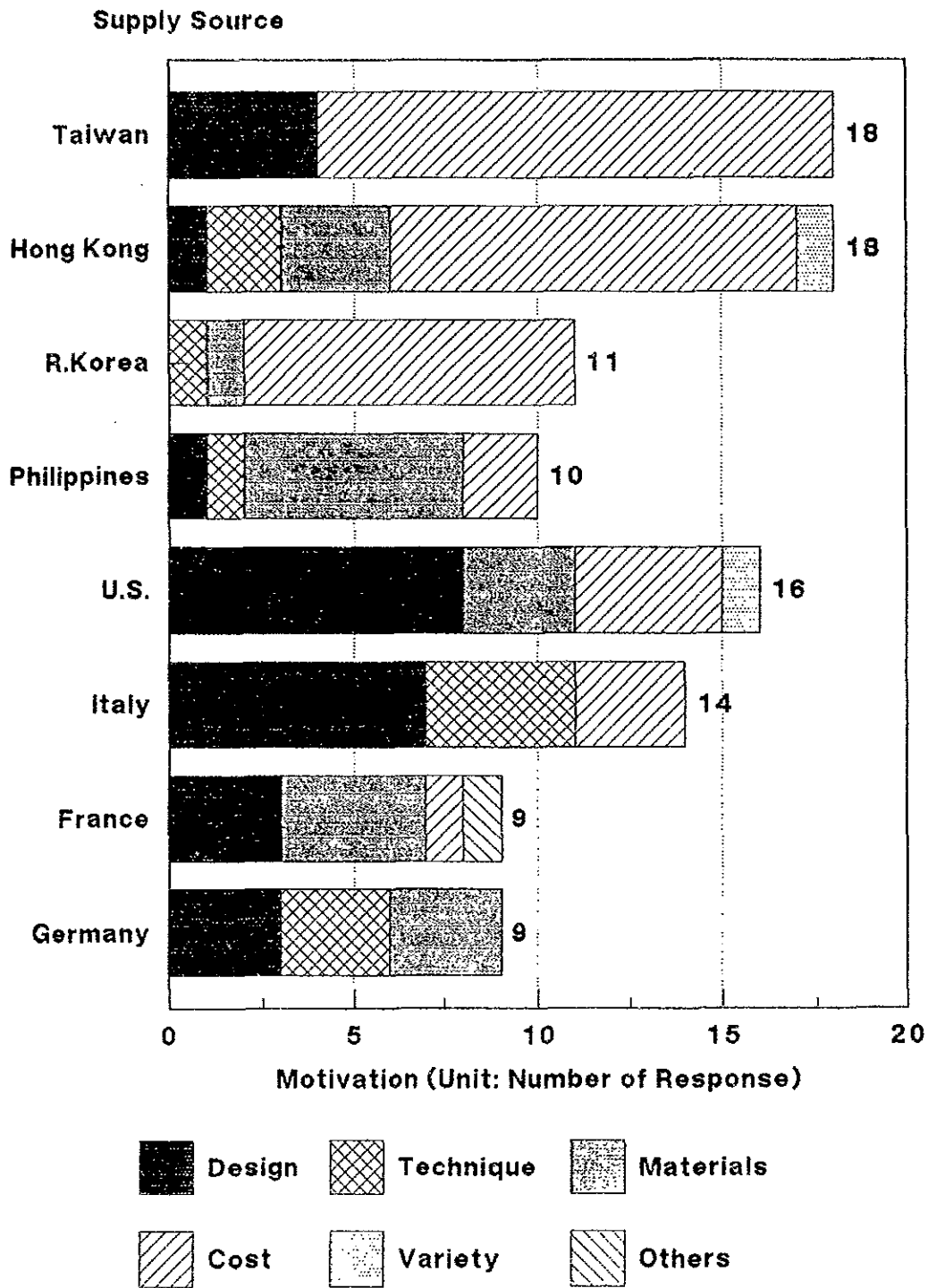
**Table IV-1-10: Imports of Imitation Jewelry in the U.K.:
Other Non-precious materials 1988-1990, (C.I.F.)**

	1988		1989		1990	
	<i>Pound Mil.</i>	%	<i>Pound Mil.</i>	%	<i>Pound Mil.</i>	%
France	0.64	5	1.21	9	1.09	8
Germany	0.89	7	0.86	6	0.73	5
Italy	1.11	9	0.86	6	0.88	6
Ireland	-	-	-	-	0.86	6
Other EC	0.57	5	0.63	5	0.36	3
Total EC	3.21	26	3.56	26	3.92	28
Czechoslovakia	1.57	13	1.12	8	0.74	5
India	-	-	1.09	8	0.82	6
Taiwan	1.46	12	1.24	9	2.02	14
Hong Kong	1.89	16	1.62	12	2.55	18
Philippines	-	-	-	-	0.84	6
USA	1.26	10	1.62	12	1.13	8
Other Countries	2.68	22	3.2	24	2.05	15
Total	12.07	99	13.45	99	14.07	100

Source: Overseas Trade Statistics/M & E Consultants

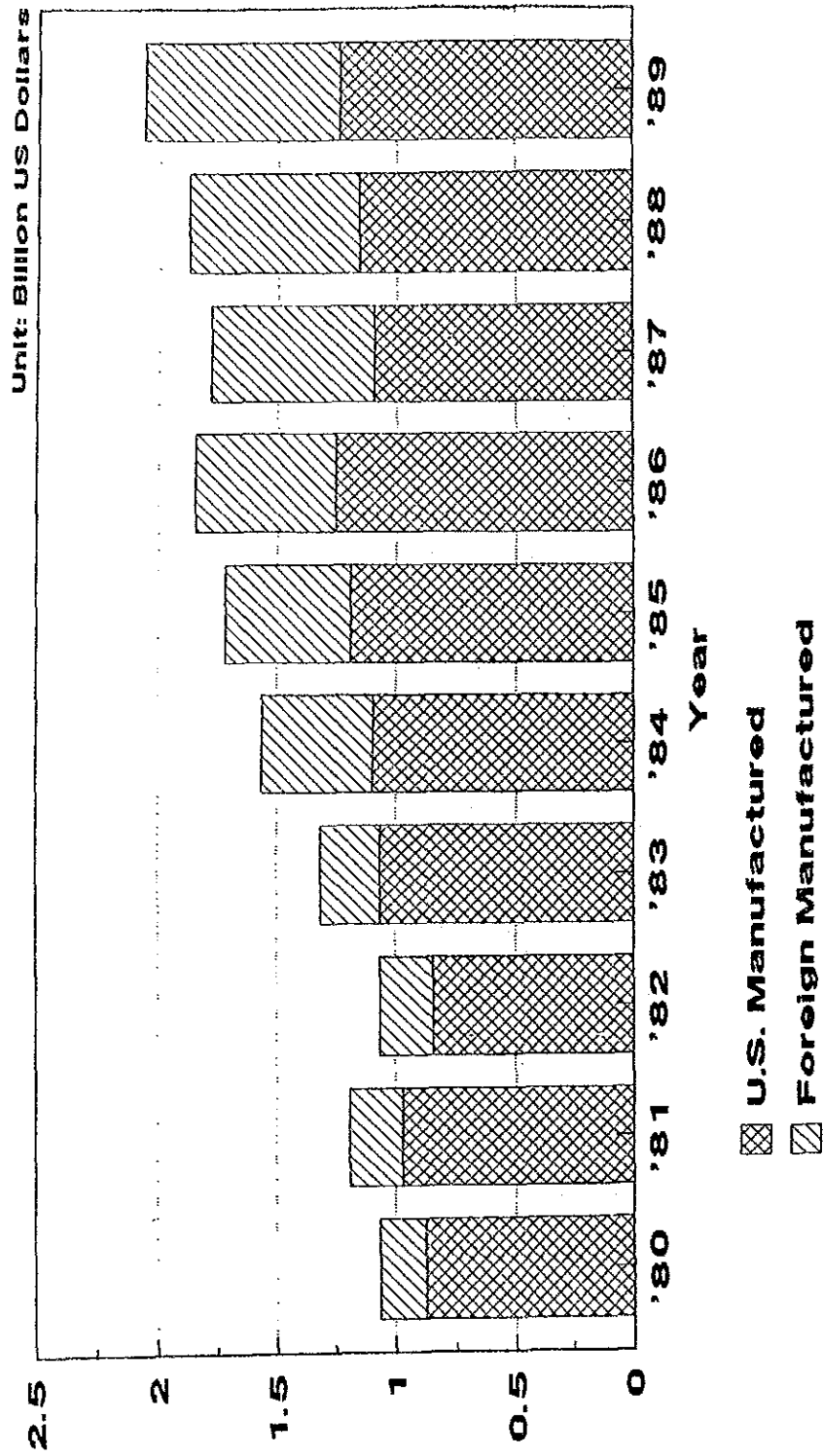
Note: - included in Other

Figure IV-1-1: Motivation for Importing Costume Jewelry by Japanese Companies



Source: Questionnaire Survey by JICA Study Team

Figure IV-1-2: U.S. Retail Sales of Jewelry (SIC 3961)



Source: U.S. Department of Commerce

2. Costume Jewelry Industry in Neighboring Countries: Thailand

(1) Overview of the Industry

The costume jewelry industry in Thailand began over 20 years ago. In its initial stages, small quantities were produced for the domestic market. Subsequently, with the entry of overseas fashions into Thailand, the industry saw development in the areas of quality and production technology. These developments provided the groundwork for the entry of Thai products into the international market. Over the last several years costume jewelry exports have been expanding steadily, with particularly large growth being seen from 1988 onward.

There are currently 50 costume jewelry manufacturers, 20 of which export their products (See Table IV-2-1). Whereas large manufacturers only produce jewelry for the overseas markets, medium sized manufacturers target both domestic and overseas markets. Because of the quality of their products, medium sized manufacturers' exports account for 20-25 percent of total exports on a value basis. At the beginning of 1991 the Costume Jewelry Association, an industry group comprising 17 exporting manufacturers was established.

(2) Production

Production technology and the quality of workmanship is improving year by year. The import and use of artificial pearls and gems as well as the development of production processes have been key factors in this improvement. The three main processes in jewelry production are casting, plating and decorating. Skilled craftsmen utilize traditional Thai designs in the decorating process. Although in the past the standard of casting and plating was low, major manufacturers are developing these processes. Tin is the main material used in casting (major makers use tin with a purity of 90 percent). The plating process has been improved with the use of 100 percent gold plating solution. This improves the appearance of finished products giving them a look of high quality. The introduction of modern technology and of high speed and high technology machinery and equipment such as casting machines, electroplating facilities and sand blasters have not only helped in the improvement of quality but also in upgrading the industry.

In contrast to other industries, few foreign costume jewelry manufacturers have applied for BOI promotional privileges. There are presently only four companies receiving them. These four companies are joint ventures between Thailand and France, the Netherlands, China and Taiwan. However only two of the companies have begun production. They produce around 1.5 million pieces per year and this is exclusively for the export market.

Brooches account for 65 percent of total costume jewelry production in Thailand. These are followed by earring and necklaces. Brooches in animal and flower designs are popular and base-metal items with artificial gems are more popular than items plated with natural materials. Earring are produced largely for the domestic market. Low quality products are sold as single items and high quality products as earring, necklace and pendant sets. Necklaces and pendants are usually decorated with artificial gems, pearls or enamel. However as tastes in these products vary according to the country (In Europe casted costume jewelry is popular, artificial pearls are popular in Japan and there is high demand for handcrafted products in a number of countries). Production of hair accessories, bracelets, cuff links, and necktie pins is order-based, and they are produced in relatively small quantities.

(3) Exports

Exports of costume jewelry from Thailand have been experiencing remarkable growth since the mid-1980s. The highest growth on both a value and quantity basis was recorded in 1989. The growth largely resulted from an increase in exports of metal based items. For metal based products, the major items were brooches and earrings, and for items made from shells, flowers and other natural materials, earrings and hair accessories were the major items.

Exports to the major importing countries, the U.S., the U.K., France and Saudi Arabia, are demonstrating firm increase (See Table IV-2-2). Although the U.S. is the largest market, growth in exports to this market is expected to slow as a result of the cancellation of Thailand's status as a Generalized System of Preferences in the U.S.. Exporters will have to further strengthen their emphasis on quality in order to maintain their position in its current markets and break into new ones. The U.K. is a potential market for non-metal based costume jewelry and exports are already showing firm growth on a quantity basis. In the Asian market, while exports to Singapore and Hong Kong have been growing steadily since 1988, the Japanese market has been unstable with export volumes fluctuating considerably since that time.

(4) Industrial Support, Export Promotion Policy

The costume jewelry industry has been designated a promising export industry and the Thai government has been implementing various support measures in areas of production technology improvement and export promotions over the last ten years.

The Ministry of Industry, Ministry of Commerce and the Office of BOI are progressing with their joint program for the establishment of the jewelry industry zone. The purpose of this is to facilitate approaching the export market and is expected to bring many benefits to the costume jewelry industry. The zone will have training systems on technical craftsmanship and a tax incentive system to strengthen competitiveness (refunds for import duties on materials required in processing of products for export).

The government's export promotion policy designates 31 priority export items. Costume jewelry is one of the products given greatest priority. The major export promotion activities include the annual dispatch of missions comprised of leading exporters to promising export markets, and the holding of strategic seminars from time to time in order to strengthen competitiveness.

Export targets for costume jewelry were 850 million Bahts in 1988, 1 billion Bahts in 1989 and 1.5 billion Bahts in 1990. Actual exports have not been far off these targets. The target for 1991 is 1.9 billion Bahts. However the Gulf War has had a negative effect on the industry and reaching this target looks to be a difficult task (See Table IV-2-3). Expansion in production volumes and investment in the costume jewelry industry in Thailand has kept pace with the growth in the domestic and international market up till now. Much of the growth in investment has come from existing domestic makers increasing their capital.

European countries provide aid to the costume jewelry market in Thailand by implementing marketing support projects. As a result of these projects, exports to the U.K., France and Germany have increased at a fairly rapid pace. Thai products are expected to increase their share in the costume jewelry markets in other European countries such as the Netherlands, Belgium as well in the future. These expectations are supported by the proven craftsmanship of products and the fact that quality meets sufficient standards. These European aid projects were implemented with the future direction of the market in mind.

In 1989 the Dutch government conducted a market segmentation study on costume jewelry in Thailand and the Netherlands. The study involved an examination of Thailand's market, profiles on major exporters and suggestions for development of the production process. In order to promote exports into the Dutch market, information on the purchasing policies of major Dutch importers, pricing methods in the Dutch market, effective distribution channels and the general market requirements was supplied. Both the Thai government and private enterprise plan to embark on activities for the promotion of exports of costume jewelry to the Netherlands in the future.

Table IV-2-1: Thailand Costume Jewelry Manufacture Breakdown by Level of Registered Capital & No. of Employees

Level of Registered Capital	No. of Firms	%
below 2.0 million Baht	14	28
2.0-5.0 million Baht	30	60
5.1-10.0 million Baht	4	8
over 10.0 million Baht	2	4
Total	50	100
No. of Employees	No. of Firms	%
below 100	4	8
100-250	33	66
over 250	13	26
Total	50	100

Table IV-2-2: Thailand Export of Costume Jewelry

	Unit: Million Baht		
	1988	1989	1990
Australia	40.4	54.4	55.2
France	235.8	259.7	355.3
United Kingdom	30.3	65.6	102.4
Germany, Fed	90.6	59.6	80.0
Hong Kong	9.8	10.2	11.6
Japan	27.1	25.9	22.2
Saudi Arabia	38.8	31.3	22.3
Singapore	10.9	16.8	22.4
USA	181.2	380.8	437.5
Others	150.6	308.6	295.4
Total	815.5	1,212.9	1,404.3

Source: The Customs Department

Table IV-2-3: Thailand's Costume Jewelry Exports Target and Results

	Unit: Million Baht		
Year	Export Target	Actual Export	Achievement
1988	850	815.5	95.9%
1989	1,000	1,212.9	121.3%
1990	1,500	1,404.3	93.6%
1991	1,900	n.a.	n.a.

Source: Department of Business Economics, Ministry of Commerce

3. Costume Jewelry Industry in the Philippines

3-1 Outline

The Philippine costume jewelry industry began with handicrafts produced from the abundance of seashells in the country. During the mid-1970s, a large number of manufacturers and exporters sprang up on the island of Cebu due to booming sales to the United States of Indian jewelry, made by cutting shells into lozenge-like shapes and connecting them with string. Cebu later achieved a worldwide reputation as a supplier of shells, leading to the development of numerous products using seashells and other materials found naturally in the Philippines. The main materials in use today include coconut shell, wood, bone, horn, stone and leather. In terms of technical standards, products range from pieces which are simply strung together with string to pieces inlaid with shell, wooden mosaics, and paper mache items. At present, approximately 80% of the manufacturers and exporters of costume jewelry are concentrated in Cebu. Most of the rest can be found in Manila and surrounding areas. These firms differ from their counterparts in Cebu in that they are unable to procure raw materials locally. They were established during one of the several worldwide shell handicraft booms experienced by the Philippines.

The Philippines have a long history of making shell and other handicrafts, and with this history has come technical prowess. This is put to full use in the costume jewelry industry. The country is rich in naturally occurring materials such as shell, wood, and carabao horn, and until now product development has focused around these materials. Costume jewelry is essentially a labor-intensive industry, and the country's large supply of dexterous laborers has helped significantly. The attention focused on Southeast Asian products during the ethnic product boom of recent years has also contributed to the development of this industry.

Although the industry in Cebu has existed for nearly 20 years, the closing of existing companies and the founding of new ones occurs frequently. According to a questionnaire survey conducted by the Team, only nine (17%) of the Cebu exporters and two (8%) of the Manila exporters had been in business before 1980. Meanwhile, six of the Cebu firms and one of the Manila firms had been established in 1990 or 1991. Many of Cebu's manufacturers and assemblers appear to have sprung up during 1986-89, a period of healthy exports.

Philippine firms engaged in the production of costume jewelry are reported to number between 2,000 and 3,000 and employ between 20,000 and 30,000 workers. Virtually all can be classified as cottage industries, and most are located in Cebu and surrounding areas. There are 200 exporters in Cebu and slightly less than 40 in Manila. Most shipments abroad are made through exporters.

Roughly half of all export volume is destined for the United States, followed by France, (West) Germany, the United Kingdom and other European nations and Japan. Products are also shipped to Asia and the Middle East. Most Philippine products have an FOB price of less than US\$1, and in the U.S. market they have gained wide acceptance as casual accessories. Most of the consumers are thought to be young. Locally, there is virtually no outlet for the products aside from the tourist market.

Exports grew at an average annual pace of 30% from 1986 to 1989, amounting to \$32.62 million in the latter year (see Table IV-3-1). This increase is due in large part to expanded shipments to the United States, which forms the leading market for costume jewelry. Exports to the United States slumped in the aftermath of the Gulf War, however, and yearly 1991 exports are expected to decline in value over the previous year.

This has had great repercussions on the Philippine costume jewelry industry, which is currently working to develop alternative markets for its products.

Problems have also developed in the supply of materials. Materials are purchased through shell and wood collectors and material wholesalers. Supplies of certain shells have dwindled, however, and are no longer sufficient. In addition, the harvest drops during the rainy season, causing shell prices to surge. Moreover, almost all procuring machineries and equipment are imported.

3-2 Production Structure

(1) Outline

The Philippine costume jewelry industry consists of exporters, assemblers, manufacturers, and other related firms. Most of the exporters are also engaged in assembly and manufacturing. In Cebu, however, exporters and manufacturers have relatively distinct functions, and the manufacturing divisions at the exporters are quite small. In contrast, Manila-based exporters remain heavily dependent on in-house manufacturing. In many cases, manufacturing divisions are located outside the Metro Manila district. This is due to the high cost of labor and land in Manila coupled with government incentives for the location of factories outside Metro Manila. Exporters deal directly with buyers and play an important role in marketing, design and product development. Prior to the manufacturing process, natural material collectors and traders are involved. Also playing a role are suppliers of machinery, metal fittings, and chemical products such as adhesives.

(2) Manufacturers

Here, the term *manufacturers* refers to the parts processors which in the Philippine costume jewelry industry are referred to as suppliers. Most are located in Cebu and surrounding areas, and many are cottage industries with just 5-10 employees. They are numbered at anywhere from 1,000 to 2,000; the actual figure is uncertain. Most of the employees belong to low-income groups, and the high unemployment rate makes it easy to hire workers. Several processes are contracted out to these firms by the exporters. Each of the firms specializes in a certain material, such as shells or wood. Since they depend on a limited range of work, these companies tend to be directly affected by seasonal fluctuations in orders and demand. As a result, changes of occupation and business closings are fairly common. Most of the existing companies were founded in or after 1985. Today this group is facing a sharp drop in orders resulting from the U.S. recession. In general, manufacturers have the following characteristics:

1. Financial situation

Many of these firms lack sufficient funds for capital investment and even continued operation. With poor creditworthiness and no collateral to speak of, most are unable to borrow necessary funds. Thus, equipment must be purchased using advance payments from the exporters. Also, owners often lack financial management skills.

2. Facilities and tools

Grinders, pincers and tweezers are the main types of machinery and tools in use, and most operations are still performed manually. Multi-purpose motors are often used in grinders, drills, and, in combination with metal drums, home-made tumblers. Even these simple tools are often in short supply, and maintenance is inadequate. Safety equipment such as goggles and gloves are in especially short supply. In addition, few firms have electrical generators, dryers, and other equipment needed to improve operating efficiency.

3. Labor force

Plagued by unstable management, many firms are unable to hire enough trained workers. There are also problems with worker attitudes; employees often show little interest in efforts to improve quality or efficiency. Another characteristic of this industry is the large number of laborers who work for only short periods and are paid on a piece-rate basis. Working environments are also poor.

Some manufacturers employ upwards of 100 workers and produce their own designs for direct export, but the great majority are small operations with around ten employees and annual turnover of 50,000 - 300,000 pesos. Since these firms can be started easily with little capital, the industry tends to become overcrowded once the boom passes. Some of the firms even lack telephones or other communication equipment, forcing exporters placing orders with them to make regular visits for consultation and guidance.

(3) Assemblers (Stringers)

Assemblers, also called stringers, assemble parts supplied by the manufacturers and put together the finished or semi-finished product. They typically employ only 5-10 workers, or about 20 at most. They have little capital, and often do not even have telephones. Most of the work is done in-house (i.e., at home). The employees may be housewives, senior citizens, or children, and often the work requires no experience. Since payment is made on a piece-rate basis, earnings are unstable throughout the year. Little machinery is used; scissors and cutters are the only equipment at some of the companies.

It is estimated that about 500 of these firms are located in Cebu.

(4) Exporters

1) Introduction

Exporters play a key role in marketing, design and product development as well as handling some manufacturing and assembly operations. Thus they form the backbone of the Philippine costume jewelry industry. Exporters located in Cebu differ from their Manila counterparts in the way in which they were established and in their business objectives.

Exporters based in Manila must procure shell and other natural materials from Cebu or other areas, driving up costs. These firms are also at a disadvantage because of the higher wage scales in Metro Manila. As a result, products cost more to produce in Manila than in Cebu. However, Manila has better access to foreign ports and buyers, and related government agencies and services can be easily utilized.

Cebu is home to a large number of manufacturers and assemblers, simplifying management for the exporters. Labor costs are lower than in Manila, and shells and other natural materials are abundant. Today, however, the natural materials used in costume jewelry are shifting from shells to wood and coconut shells, both of which are found in abundance throughout the Philippines. Consequently, some production is being transferred to Mindanao, Bohol, southern Luzon and the north area of Manila. In this sense Cebu's superiority is on the wane. Although the number of exporters located in Cebu is quite large, a small group of large corporations is responsible for a substantial share of costume jewelry exports. Cebu is also home to several wholly-owned foreign affiliates and joint ventures (from the United States, Italy, West Germany, etc.) who are engaged in manufacturing and exporting. Some of these firms are quite large, and their

exports considerable. In terms of absolute numbers, however, Philippine-capital firms constitute an overwhelming majority.

Manila also has very few foreign affiliates, the great majority of firms being locally capitalized. Several foreign-affiliate trading firms also deal in Philippine costume jewelry in addition to other products.

2) Classification of exporters

As noted above, exporters are concentrated in Cebu and Manila, and corporate characteristics differ between the two regions. Cebu firms can further be divided into three groups, and Manila firms into two groups, on the basis of designs and target markets.

1. Group A-1: Firms in this group are based in Cebu and have a strong flavor of private management, along with an orientation towards flexible manufacturing (i.e., high-variety, low-volume). Designs are heavily dependent on the individual tastes of the owner or designer. The main market remains the United States, although recently there have moves to target the European market.

2. Group A-2: Also located in Cebu, firms in this group are relatively large and have established corporate organizations. They are also able to produce a large variety of products in large quantities. They maintain large workforces and numerous subcontractors, and have large management divisions. The main market for these firms is the United States, to which they export large quantities of costume jewelry.

3. Group A-3: Firms in this group are privately-managed operations located in Cebu with inadequate design capabilities and limited production volume. Their buyers are also limited in number.

4. Group B-1: Located in Manila, these firms also have a strong flavor of private management and an orientation towards flexible manufacturing. Their products, however, differ from those produced in Cebu.

5. Group B-2: These firms are based in Manila and have an established corporate organization. Although management and assembly divisions may be located in Manila, most production is subcontracted out to smaller firms in Cebu and other regions.

In addition to the companies in these five categories, some trading firms handle costume jewelry along with other products. Because they are not engaged in design or assembly work, however, they are not included among the costume jewelry firms. (See Table IV-3-2)

The characteristics of firms in each group, together with the technical and business-related problems they face, will be described below.

a) Group A-1

Most of the exporters in Group A-1 are medium-sized operations, with the owners keeping a tight reign over company management. Most own sufficient facilities for some in-house production.

1. Target markets: The focus remains on the low-priced segment of the U.S. market, but companies are beginning to shift their attention to Europe and Asian markets like Japan. Although these companies have product lineups for the low- to medium-priced segment of

non-U.S. markets, buyer demands for cheaper products are difficult to ignore, and in general low-priced items continue to be the main export.

2. Market access: Contacts with foreign buyers are obtained mainly through participation in the CITEM-sponsored F.A.M.E. (Furnishing and Apparel Manufacturers Exchange) and fairs held abroad.

3. Design and product development: Firms are making efforts to catch up with world fashion trends. Materials range from relatively expensive materials such as shells and carabao horn to inexpensive materials like coconut shells and wood. Products with European-style coloring and design (e.g., pastels and monotone pop-art) are available.

4. Facilities and production technology: Since Cebu exporters often share subcontractors, there are no outstanding characteristics. Some of the firms in this group, however, have their own facilities for casting and plating. Some also own bench grinders and bench drills.

5. Management: In many cases the owner himself is responsible for design, production management, and market development. In addition to assembly and finishing, some firms are engaged in intermediate processes such as inlaying and dyeing.

6. Fund Raising: Basically, capital is provided by the owner. Some firms also borrow from banks on the basis of trust or using fixed assets as collateral. However, more capital will be needed to carry out marketing campaigns and develop the capability for handling large orders.

b) Group A-2

The firms in this group are relatively large, and joint ventures and foreign affiliates are common. Perhaps because of this, many are not very enthusiastic participants in industry activities. Export ratios often approach 100%.

1. Pricing and markets: Low-priced items form the bulk of sales, with more than 65% destined for the U.S. market. Most of the remainder are shipped to Europe. Exports to Japan remain very limited, and little interest is shown in this market.

2. Market access: Ties with foreign buyers are strong. In addition to participation in local and overseas trade fairs, many firms have partner firms, private connections, or marketing agents in leading markets. Thus they are quite capable of gathering foreign market information on their own, and they have a great deal of data on both markets and fashion trends.

3. Design and product development: Low prices limit the range of usable materials, and most designs are based around a small group of materials (coconut shells, wood, etc.). Generally speaking, large products using primary colors for export to the United States were the most notable. Many of the firms have independent design divisions.

4. Facilities and production technology: As already indicated above, the sharing of subcontractors blurs any distinctions in production technology. Instead, many firms have excellent quality control sections, and it is here that a difference with other groups appears. Firms are fully equipped with general equipment such as grinders, drills, and tumblers.

5. Management: Management divisions have been established to manage the large number of subcontractors, and computerized management systems have been adopted.

These firms put large numbers of supervisors in their management system. Managers are well aware of the cost management.

6. Fund Raising: These firms are able to provide loans to their subcontractors. Their high creditworthiness allows them to borrow from banks, but in most cases necessary funds are taken from owned capital.

c) Group A-3

The firms in this group have the least capital and the smallest workforces of all the exporters in Cebu.

1. Target markets: Most products target the low-end sector of the U.S. market, and buyers are limited. Few firms export to Japan.

2. Market access: Many firms are unable to pay the fees required for participation in the CITEM fair or are unable to meet CITEM-designated entry criteria. Instead, they wait for visits by specified buyers.

3. Design and product development: Unable to develop their own designs, these firms typically copy old designs. Access to design information is also limited, and they are easily influenced by developments at other companies.

4. Facilities and production technology: Production facilities are at best only sufficient for assembly.

5. Management: There are problems regarding marketing. In addition, the shortage and instability of orders result in unstable management.

6. Fund Raising: Owned capital is very limited, and borrowing from banks is difficult. However, since export volume is limited and little is spent on sales promotion, these firms do not need much money for operating funds. Owned capital is usually sufficient.

d) Group B-1

These firms produce unique products. They have complete facilities and are able to manage all production in-house. As a result, work is seldom subcontracted out to manufacturers in Cebu and elsewhere.

1. Target markets: Mid-range items are the most common, and Europe is targeted more than the United States. Some exports to Japan can also be seen.

2. Market access: In addition to participating in local and overseas trade fairs, the owners of these firms sometimes contact overseas buyers directly. They have made special efforts to strengthen ties with buyers for the European market.

3. Design and product development: Many of these firms export unique products, and they are enthusiastic in the development of new designs. They also care about the selection of materials and the development of production techniques, which helps to prevent the release of imitation goods. They use a variety of materials like metal, glass, and plastic in addition to the traditional natural materials.

4. Facilities and production technology: Companies have the facilities needed for production and are active in making improvements. Production is either done in-house or subcontracted out to a dedicated supplier, and measures are taken to prevent the production of imitation goods by other firms.

5. Management: These firms have developed corporate organizations, but there is a conspicuous shortage of personnel with suitable management skills.

6. Fund Raising: Working funds are provided by owned capital, while bank borrowing is used when large sums are required. These firms are notable for their aggressive capital investment programs.

e) Group B-2

Although based in Manila, these companies are similar to those in Groups A-1 and A-2. While the firms in Groups A-1 and A-2 subcontract work out to manufacturers and assemblers located mainly in Cebu, however, those in this group tend to use subcontractors in other regions as well because of the lower labor costs involved.

1. Target markets: These firms handle low- to mid-range products. The United States is the main market, although some ship to Europe as well.

2. Market access: Direct contacts by the owners with foreign buyers are more common than participation in trade fairs. These companies often make use of commercial attaches at Philippine embassies abroad to meet foreign buyers.

3. Design and product development: Although designs are not substantially different from those at Cebu firms, the products are known for their high quality.

4. Facilities and production technology: Firms have only an absolute minimum of facilities. Virtually all production is subcontracted out.

5. Fund Raising: Basically, these firms rely upon owned capital. During short-term fund shortages, they make use of low-interest loans from banks based on letters of credit.

3-3 Market and Design Information

(1) Export Market Information

General information concerning overseas markets is obtained from Philippine government bodies like DTI and CITEM, and local offices of foreign trade promotion organizations such as the German Chamber of Commerce & Industry and JETRO. For information concerning product planning and market trends, these firms may turn to individual buyers or friends and relatives living overseas, or they may study markets and purchase magazines when traveling abroad.

However, information that directly concerns the transaction at hand is often very limited. In addition, there is no systematic collection of information or study of target markets, especially concerning (1) the positioning and evaluation of the company's products and (2) distribution systems, the characteristics of each distribution channel, competing products from other nations and trends in consumer demand.

(2) Design-related Information

The PDDCP, located in Manila, is the only Philippine government organization engaged in collecting and supplying information regarding fashion and jewelry design, recent color trends, etc. PDDCP services are actively utilized both by CITEM, which is responsible for planning and managing product exhibitions, and by private corporations located in Metro Manila and surrounding areas.

Those firms with ample financial resources and the desire to keep abreast of the latest design trends subscribe to Italian fashion journals and other publications containing information on design motifs and color trends. Some firms also make use of foreign travel opportunities such as overseas exhibitions and negotiations with buyers to purchase fashion magazines and other relevant materials.

Designs and product information for costume jewelry can be broken down into (1) information concerning materials and processing technology and (2) designs for fine jewelry.

At present, Philippine products are made from natural materials and are characterized by a low degree of processing. As a result, design variations are limited. To utilize natural resources more effectively and produce products with higher added value, firms will have to study material processing techniques and obtain information on auxiliary materials like metal fittings, paints, adhesives, resins, and chemicals (specifically, varieties, applications, proper use, etc.) and incorporate them into the production process. Collection of information in this area has not yet been done.

The dividing line between costume jewelry and fine jewelry is quickly disappearing on the world market. If firms are to succeed in entering the bridge jewelry market during the medium to long term, they will have to collect and study fine jewelry designs, both antique and modern.

3-4 Design and Product/Material Development

In general, the Philippine costume jewelry industry can be characterized by access to abundant natural materials and the availability of a plentiful labor force to process these materials. In terms of design and product originality, however, the industry's reputation is not so favorable. Philippine costume jewelry began and developed as a local handicraft, and it continues in that tradition today. Only limited demand can be expected for handicraft-class products, and many competing nations are capable of producing similar products. Thus it will be difficult to achieve viability on the international market.

The major factors behind this design lag include the following: 1) a shortage of designers; 2) a limited selection of materials; 3) a lack of awareness and information concerning the need for design information; and 4) a lack of awareness concerning copyrights.

1. Shortage of designers

A lack of training facilities for designers of costume jewelry or similar products has resulted in a serious shortage of qualified designers. Most of the designs currently in use were created by company owners. In addition, most designers have little background in fashion, and in many cases are unaware of even the most basic design techniques. Generally speaking, costume jewelry designers are less highly regarded and more poorly compensated than designers in the apparel industry.

2. Limited selection of materials

Natural materials form the bulk of the materials currently in use, and in recent years the emphasis has been shifting to even more inexpensive varieties like coconut shells and wood. This limits possible designs.

Metal parts often cannot be procured locally, making it difficult to provide a high-quality feel. In Manila, some firms are using materials like plastic and clay to manufacture products that cannot be made with coconut shells or wood. However, even these firms have yet to provide high fashion products based on their own designs.

3. Lack of design information

Companies must depend on buyers, foreign fashion magazines, and commercially available color forecasts for their design information, thus the information is limited in both quantity and quality. Unable to travel abroad and see actual fashion trends for themselves, even talented designers are forced to rely on limited sources of information.

PDDCP in Manila is the country's center for design, and here it is possible to obtain design-related advice and information. However, while information from foreign consultants and designers well-versed in market trends is very useful, the information services offered by PDDCP remain insufficient.

4. The problem of imitation goods

Two leading factors are behind the ease with which designs are copied: (1) the sharing of subcontractors makes it easy to copy the products of other firms; and (2) there are no restrictions on the production of imitation goods. Although the problem exists even in the industrialized nations, the Philippines have been flooded by imitation products, doing great harm to the country's image as a producer. It also discourages manufacturers from paying large fees for the use of foreign designs.

From the standpoint of the buyer, it is difficult to find any unique Philippine character in local costume jewelry designs. It will be impossible to etch out a niche on the world market with ethnic-flavored designs alone since these are produced in other countries as well.

Another important problem is that the problems discussed above are not recognized as such by the local industry.

3-5 Raw Material Supply

(1) Local Supply

Most costume jewelry produced in the Philippines is made from natural materials. Sea shell in particular has become a defining characteristic of the local industry. However, a great deal of shell is exported in its raw state, particularly to Taiwan, where it is bought up by local manufacturers of costume jewelry. As a result, prices have been rising on a yearly basis. Another factor in seasonal price fluctuations is the drop off in harvest during the rainy season.

Since the products using materials like coconut shells and wood are quite small, total consumption of these materials is limited. The costume jewelry industry can use waste materials sourced from other industries such as the food processing or furniture industries, so low prices and a stable supply can be expected in the coming years.

Most metal components are imported, though some are also produced locally. Cast and pressed pieces are limited in volume. The pressed pieces in particular are characterized by limited variety and poor quality. Quality problems are the result of obsolete equipment and a shortage of skilled technicians. Factors behind limited variety include the high cost of fabricating press molds (particularly in the Philippines where there is limited demand) and an inability to compete with high-quality, low-cost foreign products.

(2) Imported Parts and Materials

Imports include components, metal fittings, and chemical products such as adhesives. Component imports remain limited in volume and have not yet become as serious a problem as metal fitting imports. Large quantities of metal fittings and

adhesives are imported, the former being rich in variety as well. Imported products are obtained (1) directly, (2) through local hardware dealers, or (3) from the jewelry buyer. Hardware dealers are by far the most common route. However, prices are high, and most products are imported from Hong Kong; the high-quality goods demanded by Japanese buyers, for example, are not stocked by these stores. Companies wanting to export their products directly must wade through a maze of complex import procedures and pay a 50% customs duty. When the materials are used for the manufacture of export products this duty can be refunded, but the procedures are time-consuming, and few companies have made use of the system.

Hong Kong is by far the leading supplier of imported metal fittings, followed by the United States and Taiwan. Hong Kong metal fittings, though not especially high in quality, are popular for their low cost. Japanese products, while high in quality, are very expensive, making it impossible to turn a profit with inexpensive Philippine costume jewelry.

Due to the short product cycle of costume jewelry, materials must be procured promptly. In the case of imported metal fittings, it is necessary to remove all existing obstructions and create a distribution mechanism that will reduce procurement time. At present, hardware dealers are trying to deal with this problem by maintaining inventories.

The current 50% duty for metal fittings is scheduled (as of August 1991) to be revised to 30%. Some feel that even 30% is too high, and there are calls for further rollbacks.

Most adhesives are purchased through hardware dealers, but varieties are limited and quality less than acceptable. The use of adhesives in itself casts doubt on the quality of the products.

Some paints and dyes are also imported, but there have been quality-related problems accompanied by claims of fading. Manufacturers need to conduct more research on the colors they use.

The Philippine costume jewelry industry also imports some specific shells which can not be found in the Philippines.

3-6 Export Marketing

Aside from the exporters, the only other firms engaged in the export business are a few large manufacturers (these two groups will collectively be referred to as "exporters" below).

Exporter efforts to accommodate the customer vary in such areas as the materials used in leading products, target markets (i.e., low-end, mass-produced goods for the U.S. market or small-lot, mid- to high-range products for the European market), design skills, and product development capabilities.

Regardless of their size, most firms lacking in design skills simply wait for visits or orders from buyers and therefore suffer from the large seasonal fluctuations in order volume (orders for spring and summer designs are concentrated from December to the following April, with a large drop off starting in May). Some firms have specific buyers with whom they do business year-round. Most of these were established in the 1980s and do not have a great deal of capital. They have worked to achieve close communication with buyers based on an awareness of their own product or company characteristics and to develop products in response to market needs and fashion trends. In addition, they are active participants in local and foreign exhibitions.

The Furnishings and Apparel Manufacturers Exchange (F.A.M.E.), sponsored by CITEM and held twice a year in Manila, is the country's only international trade fair covering the costume jewelry field.

Qualifications for participation were made more restrictive starting in 1991. In addition to a product and corporate assessment (assets, management ability, etc.), past export performance and future plans are also taken into consideration by the selection panel. Even before 1991, the high cost of exhibiting and the uncertainty of getting results scared away many small and medium-sized firms. Even among the large corporations, only a limited number chose to participate in every exhibition.

CITEM is also engaged in planning and managing participation in overseas trade fairs and exhibitions and the dispatch of sales promotion missions abroad. However, the criteria for participation in these programs are even stricter. Among the selection guidelines are participation in past exhibitions and the results thereof, product characteristics, and the marketability of five product samples.

Among the local exhibitions held by CITEM, F.A.M.E. covers a wide range of products, including furniture and furnishings, gifts, toys, household items and fashion accessories. Some have suggested, however, that the very size of the exhibition brings about the congestion of visitors rather than increasing its effectiveness. Future areas for improvement include (1) development of a more attractive overall presentation, including events such as fashion shows or corners demonstrating the manufacturing process; and (2) the holding of exhibitions based on a theme or concept.

Concerning overseas exhibitions and the dispatch of sales missions, there is a lack of study and preparation regarding overseas market and industry conditions, exhibition content, the makeup of participating members, and the timing of dispatches. Consequently, expected results have not been achieved. For the time being, these activities should be used as an opportunity to study foreign markets and deepen industry exchanges, and in the future the activities themselves should be reconsidered.

Because of the sizeable financial burden, there is no independent participation by exporters aside from the activities planned by CITEM. More aggressive market development will require a reexamination of CITEM activities coupled with independent efforts by industry and private corporations.

3-7 Fund Raising

The costume jewelry industry is composed mainly of small and medium-sized companies, and borrowing from banks is difficult. Manufacturers are often forced to turn toward informal sources for their credit needs due to a lack of fixed assets or other collateral. In contrast, the exporters have relatively easy access to banks and other financial institutions. Thus there is a distinct difference between the two groups in terms of how they raise necessary funds.

(1) Exporters

While approximately half of all exporters use banks, some borrow from relatives and finance companies. Bank loans range from low-interest loans based on letters of credit to ordinary high-interest loans requiring fixed assets as collateral. Some firms have also taken advantage of institutional loans from Technology and Livelihood Resource Center. Even companies capable of borrowing from banks, however, have indicated frequent difficulties in raising adequate capital due to high interest rates and limited loan ceilings. In the case of L/C-based loans from a certain commercial bank, for example, conditions are relatively lax but it is impossible to borrow any more than 60% of the

conditions are relatively lax but it is impossible to borrow any more than 60% of the amount indicated in the letter of credit. Uses to which these funds are put by the exporters range from the purchase of materials and components to capital investment in machinery and participation in local or overseas trade fairs and sales missions.

(2) Manufacturers

Since virtually all of these companies are very small operations, it is difficult for them to borrow from banks and other financial institutions. Instead, they often purchase necessary materials using advance payments from the exporters. There are problems, however, in the fact that both the amount and the uses to which the money can be put are limited, and the fact that not all exporters can provide payments in advance. Funds for the purchase of tools, equipment and facilities must come out of the owner's pockets. This dampens enthusiasm for capital investment among manufacturers and is the reason why they purchase only the absolute minimum of equipment. A cooperative designed to provide small loans to such firms has been organized by the costume jewelry industry association (CEBU-FAME) in Cebu.

Although there are a variety of loan programs at financial institutions targeting small and medium-sized businesses, virtually all involve short-term financing intended for exporters or high-interest loans requiring fixed assets as collateral. There are even fewer programs for cottage industries, for which the borrowing of money at high interest rates further worsens their fund position. Thus it is important that they make use of low-interest loans from the cooperative* noted above. However, long-term direct borrowing from financial institutions for capital investment is inhibited by a lack of collateral and trust. This makes it necessary to consider other possibilities when purchasing facilities and equipment, such as joint purchasing schemes or leasing from exporters and cooperatives.

* CEBU-FAME established CEBU FAME Multi-purpose Cooperative, Inc. whose purpose was the supply of capital.

Table IV-3-1: Philippines Costume/Imitation Jewelry Export

	Unit: Thousand US Dollars				
	1986	1987	1988	1989	1990
U.S.	6,433	8,172	10,462	16,906	18,291
France	1,233	1,849	942	974	1,898
Netherlands	369	930	1,242	1,433	1,919
U.K.	576	1,054	892	1,185	1,847
W.Germany	797	1,123	939	1,447	1,590
Japan	419	390	653	5,574	1,409
Others	2,142	3,554	3,968	4,913	5,662
Total	11,969	17,072	19,098	32,432	32,616

Source: DTI

Note: Commodities in PSCC 8972003 & 8972009

Table IV-3-2: Characteristics of Costume Jewelry Exporters

Group	A-1	A-2	A-3	B-1	B-2
No. of Company	38	4	10	23	1
Year of Establishment (avg.)	1984	1982	1987	1985	-
No. of Employees (avg.)	41	225	6	88	-
Annual Sales (Mil. peso, avg.)	6	64	0.4	8	-
Exports/Sales Ratio (avg.)	85%	98%	61%	71%	-

Source: JICA Study Team Questionnaire

Note: A-2; Company that number of employee is more than 100 and also annual sales is more than 20 million pesos.

A-3; Company that number of employees is less than 10 and also annual sale is less than 1 million pesos.

4. Development Policies and Programs for Costume Jewelry Industry

4-1 Development Policy

The Medium-term Development Plan (1987-92) characterizes costume and imitation jewelry as a "local resource utilization industry" and as a "short-term strategic export product", designating it a key sector for export promotion. The plan aims to achieve an immediate supply of foreign exchange by combining a wide range of natural raw materials with a plentiful supply of cheap labor.

The Long-term Development Plan (1989-2000), released in 1988 by DTI/BOI, is an attempt to improve competitiveness on world markets and increase exports through two activities: 1) improving production efficiency through higher productivity and reduced production costs; and 2) making raw material and finished product suppliers more reliable in terms of delivery time and product quality.

Financial programs and import policy (including tariffs and trade-related procedures) are the most important elements of the action plan to realize the above goals. Concerning the former, a program is needed to provide loans for operating funds and for investment in production facilities and product inspection and development. In terms of import policy, import duties on facilities and raw materials needed to improve quality must be cut, refunds increased, and trade-related procedures simplified (this to shorten delivery times). Other policies contributing to the expansion of export markets, the improvement of technology, and the training of manpower should be strengthened. Finally, a monitoring body must be established to monitor the progress and results of the long-term plan. It is also important the private sector take the lead in promoting supporting industries and building cooperative ties between industry associations.

Although import duties were finally rolled back in September 1991, no real progress has been made on the rest of the action programs. With exports of \$32.62 million (FOB) for 1990, it appears unlikely that the 20%-plus growth targets laid out in the plan (\$22 million for 1989, \$40 million for 1990, and \$284 million for the year 2000) will be realized (see Table IV-4-1).

4-2 Development Projects by Foreign Aid

The German aid project consisted of instruction in design by German designers in Cebu over a two-month period in 1990. This project was realized through a tieup between the Cebu Chamber of Commerce & Industry and the local German Chamber of Commerce & Industry. Instruction included basic topics in materials and production technology together with comments on the marketability of new products, and was not designed to lead directly to greater export business.

Sweden's export promotion project, to be carried out in cooperation with BETP, consists of the following elements: 1) a survey of Philippine industry; 2) a marketing survey for Philippine products in the Swedish market; and 3) instruction in product development and marketing with the objective of increased exports to Sweden. As yet, however, only a proposal report has been submitted.

Japanese aid consists of short-term projects (about two weeks) for export promotion and product improvement conducted by JETRO. These have continued since the late 1970s. JETRO dispatches Japanese experts in product marketing and production technology to companies and seminars and also invites selling missions to Japan. There

are large hopes for this project as it is the only one of its kind to concentrate specifically on the costume jewelry industry.

4-3 Government Bodies and Industry Associations

(1) Government Bodies

Cottage industry and small business are the backbone of the costume jewelry industry, and exports are its livelihood. As such, any promotion efforts must be closely tied to the government bodies in charge of small business and export promotion policy. Also, in as much as this sector has developed as a regional industry in the Cebu district, assistance from the regional government is also important. Three groups in the DTI are responsible for administering these fields: 1) the Regional & Domestic Operation Group; 2) the International Trade Group; and 3) the Industry & Investments Group. BSMBD, BETP, and BOI, respectively, are bureaus belonging to the three groups and are responsible for overseeing small business policy, export promotion policy, and investment promotion policy.

1) Bureau of Small and Medium Business Development (BSMBD)

BSMBD has as its objective the promotion of cottage industry and small business. Specifically, this involves the following: 1) dispersion of industry into the provinces (promotion of local industry); 2) creation of job opportunities; 3) aid for export industry promotion; 4) maximum utilization of existing raw materials; 5) improvement of productivity and efficiency at small businesses; 6) development of linkages between existing industries; and 7) promotion of mutual help and self-reliance among small businesses. To these ends, the development plans, pilot tests, monitors and evaluates innovative and cost-efficient programs and projects.

2) Bureau of Export Trade Promotion (BETP)

This department engages in the following activities to promote exports: 1) preparation of registered exporter lists; 2) collection of trade information, tabulation of data, and an information service; 3) editing of publications and production of television and radio programs for the promotion of exports; 4) a trade inquiry service using the Export Assistance Network (EXPONET); and 5) trade consultations.

Concerning Japan in particular, BETP has established a Japan Desk to gather information about the Japanese market and trade situation and to serve as a coordinator during JETRO projects.

3) Board of Investments (BOI)

Activities to promote local investment include 1) the provision of investment incentives (based on company screenings) and 2) the attraction of foreign capital.

(2) Industry Associations

The main associations for the costume jewelry industry are CEBU-FAME, based in Cebu, and FAMA-PHIL, based in Metro Manila. Exporters and manufacturers make up both organizations. Neither has a long history, and not all of the leading exporters and manufacturers are among their members. However, we look forward to future activities.

1) Cebu Fashion Accessories Manufacturers and Exporters, Inc. (CEBU-FAME)

This group was established in 1986 by Cebu manufacturers and exporters with the objective of improved quality and sales promotion. Of the approximately 180 members, 68 are exporters. While working to strengthen the Cebu costume jewelry industry, the group's main activities are as follows: 1) development of the entire fashion accessory industry, including non-members in Region VII, to allow production of accessories suited to local and world markets; 2) development of healthy businesses; and 3) petitions to the government for assistance in product marketing, exports, and parts imports and for incentives and subsidies for industrial development. CEBU-FAME is a member of the Cebu Chamber of Commerce & Industry.

2) Fashion Accessories Manufacturers' Association of the Philippines (FAMA-PHIL)

Established in March 1991, this organization had a membership of 22 firms as of November 1991. Most of these firms are based in the Metro Manila area. Its main objectives are as follows: 1) improvement of member firm skills and management; 2) improvement of technology and the image of Philippine exporters; 3) submission of proposals to the government for policies to improve the industrial environment; and 4) the collection and sharing of information about fashion trends and technical innovations. Requirements for membership are strict, and virtually all of the members are engaged in both manufacturing and exporting. (See Table IV-4-2)

**Table IV-4-1: Philippine Government Exports Targets
for 1989-1990**

Unit: Million Dollor, Fob

Year	Export Target	Growth
1989	22	20%
1990	40	25%
1991	52	30%
1992	66	20%
1993	79	20%
1994	95	20%
1995	114	20%
1996	137	20%
1997	164	20%
1998	197	20%
1999	237	20%
2000	284	20%

Source: BOI

Table IV-4-2: Organizations Related to Costume Jewelry (1)

Organization (location)	Number of staff	Established Government Agency	Objectives	Activities	Cooperation from Japan
A. Government organization					
Center for International Trade Exposition & Missions, Inc. (CITEM) (Pasai City, MM)	Approx. 80	DTI	<ul style="list-style-type: none"> - Set up in Jan. 1983 as an export promotion body. - Export promotion and marketing of non-traditional items. - Planning and implementation of trade fairs, special exhibitions, selling missions and other trade promotion business. 	<ul style="list-style-type: none"> - Holding of an international trade fair F.A.M.E. (Furnishings and Apparel Manufacturers Exchange) in Manila. - Participation in major exhibitions and trade fairs abroad. - Operation of permanent exhibition halls. 	<ul style="list-style-type: none"> JETRO ASEAN Center
Product Development and Design Center Philippines (PDDCP) (Manila, M.M)	140	DTI	<ul style="list-style-type: none"> - Set up in Aug. 1973. - Engaged in activities for improvement and propagation of designs with a view to promote industrial design. - Making efforts to discover and train talented people in tie-up with designers associations and design schools. 	<ul style="list-style-type: none"> - Research and development of designs for industrial products, packaging, etc. and operation of industrial design information support service. 	
Philippine Trade Training Center (PTTC) (Pasay City, M.M.)	73 (up to 106)	DTI	<ul style="list-style-type: none"> - Founded in 1987. - Aims at contributing to national trade promotion by training skilled people who are well versed in practical trade business and marketing methods. - Sets up courses for training on trade, export inspection (of textiles, furniture and foods), business Japanese and exhibitions. 	<ul style="list-style-type: none"> - Exercises on features of materials and test/inspection. - Guidance on practical business such as trade practices, seminars and training on exhibitions. - Training programs are planned and operated by Japanese experts and staff members. (until Feb. 1992) 	JICA

Table IV-4-2: Organizations Related to Costume Jewelry (2)

Organization (location)	Number of staff	Established Government Agency	Objectives	Activities
National Manpower and Youth Council (NMYC) (Taguig, M.M.)	Inclusive of regional staff: 1,554 (Manila office only: 502)		<ul style="list-style-type: none"> - Established in 1969. - Planning and implementation of training programs as a human resources development organization in close connection with industries, enterprises and training centers. - Aims at qualitative improvement of work force and promotion of employment. 	<ul style="list-style-type: none"> - Resembles as Vocational school - Provide practical training course (2-3 months)
B. Private organization				
Philippine Exporters Foundation (PEF) (Pasay City, M.M.)	59		<ul style="list-style-type: none"> - Set up in 1984, has membership of 465 firms from 12 types of industry. - Assistance in the field of practical business on planning and implementation of various undertakings related to export promotion as and intermediary between government and private sector. - Supplying its members with information, providing them with advice or agency business on practical trade affairs, and other activities aimed at facilitating their export business. - Cooperation from overseas: World Bank, Asian Development Bank U.S.A.I.D. 	<ul style="list-style-type: none"> - Provision of economic assistance to undertaking of CIEM, PDDCP, PTTC, etc. (example: invitation of foreign experts, overseas market surveys and others).

Table IV-4-2: Organizations Related to Costume Jewelry (3)

Organization (location)	Number of staff	Established Government Agency	Objectives	Activities
Philippine Chamber of Handicraft Industries, Inc. (PCHI) (Makati, M.M.)	8		<ul style="list-style-type: none"> - Establish in 1967 to support cottage industries and small businesses in the handicraft industry. - Activities include strengthening of the industrial infrastructure, export promotion, financing, and improving linkages with government and other industries. - Membership includes 280 companies and 9 industry associations 	<ul style="list-style-type: none"> - Holding of local and foreign displays, other type of common marketing activities. - Distribution of subsidies for NYMC training courses, sponsoring of training tours and seminars. - Resource surveys, price negotiations and other activities to ensure a stable supply of raw materials. - Low-interest loans
Cebu Fashion Accessories Manufacturers and Exporters, Inc. (CEBU-FAME) (Cebu)			<ul style="list-style-type: none"> - The largest single association for the fashion accessory industry; based in Cebu, the center of production and raw material supply. - Approx. 180 members, of which the 68 exporters play a leading role. - Works to strengthen whole industry including non-member subcontractors 	<ul style="list-style-type: none"> - Responses to common problems, such as building of an industry order. - Because of financial limitations on existing activities, CEBU FAME Multi-purpose Cooperative, Inc. was established in 1991 to carry out a border range of activities, including a loan program.
Fashion Accessories Manufacturers' Association of the Philippines (FAMA-PHIL) (Makati, M.M.)			<ul style="list-style-type: none"> - Establish in March 1991 as a group of Manila-based manufacturers and exporters of fashion accessories. - Member firms have met rigid entrance requirements. - Development of and industry order, originality, and world-class management and marketing. 	<ul style="list-style-type: none"> - Development of management skills, improvement of the industrial environment, development of higher-quality products, and improvement of an image of Philippine business. - Also serves as an information center.

5. Framework of Development Programs for Costume Jewelry Industry and Recommendation on Implementation

5-1 Framework of Development Programs

(1) Establishment of Targets of Development Programs

1) Introduction

When setting goals for the development program it will be necessary to consider how to utilize Philippine strengths most effectively, based on 1) an understanding of trends in leading import markets and industry trends in the main exporting nations; and 2) thorough, objective consideration of Philippine strengths and weaknesses in the costume jewelry field.

The following section will begin with a grasp of products from leading exporters to the United States and Japan, which are the largest importers of costume jewelry, and the position they occupy in these markets. Next, the strengths and weaknesses of Philippine products will be examined in terms of their competitiveness on the two markets. Based on these results, targets for the Philippine costume jewelry industry will be discussed and measures needed to achieve these targets suggested.

2) Costume Jewelry Markets in the United States and Japan: Characteristics and Trends

In the United States, the Class A and C markets are the largest (see Chapter 1.1-3). The Class A market has also posted the highest growth, and the distinction between this category and fine jewelry is gradually disappearing.

The trend toward more expensive products is evident in the Japanese market as well, with Class A products rapidly approaching fine jewelry and Class B products growing closer to their Class A cousins (see Chapter 1.1-2). Non-Class A markets are limited in size. Class B and C markets posted the highest growth.

Analysis by material shows that the partial use of precious metals and precious stones is increasing along with the use of materials plated with a precious metal. In terms of design, pieces designed in response to a specific fashion trend are accounting for a large share of sales. Most imports, however, continue to use relatively inexpensive materials.

In general, exporting nations supply individualistic products to the costume jewelry markets in both nations. In the U.S. market, costume jewelry of R. Korea is characterized by the use of shells and artificial pearls and is considered to be of the highest quality. Taiwanese products use glass, plastic and metal (especially brass and tin), while costume jewelry from Hong Kong tends to use low-priced metal (especially brass) and rhinestone tiaras. Chinese products, taking advantage of that country's huge supply of low-cost labor, are characterized by the use of hand-carved wood and bone.

The Philippines' use of wood, shell, paper and paper mache has gained a reputation among buyers for its innovativeness. No other country can supply costume jewelry using these materials. However, Philippine products are grouped into the Class C and Class D markets of the U.S. costume jewelry market. None of these products has been able to penetrate the Class B market, and they are hardly sold even in the Class C market. In Japan as well, the Class D market is the main destination for Philippine goods.

Buyers make the decision to purchase from a country when consumers demand the kinds of products for which that country is known. Thus, buyers turn to the Philippines only when there is substantial demand for Class D costume jewelry. As long as demand for this Class D jewelry does not increase, neither will imports from the Philippines. A temporary boom may result in a rush on orders to the Philippines, but once the boom is over sales are bound to grow sluggish once again.

3) Advantages and Disadvantages of The Philippine Costume Jewelry Industry

The Philippine costume jewelry industry began as a result of the attention it gained as a supplier of raw materials when demand for shell-based costume jewelry sprang up in the U.S. market. Today, however, it is difficult for local firms to obtain shells, and the industry's image is no longer closely linked with shells. Shells themselves continue to be exported as raw materials and component parts, and are used by R. Korea and Taiwan in producing costume jewelry. In other words, the shell supply has not dried up, but rather the industry has replaced shells with lower-priced materials in order to meet buyer demands for low-cost products. Philippine industry has been losing its purchasing power for shells, it still has a potential advantage in its ability to supply shells.

When considering penetration of Class A-C markets, however, there is a lack of the materials and processing technologies required to develop suitable new products, and the development of supporting industry cannot be seen. In particular, the metalworking techniques so necessary to success in today's market are virtually nonexistent in the Philippines, and there are no local manufacturers of needed metal components. Even shell processing techniques are not advanced enough to produce products suited to Class C and higher markets.

In the area of product development and designs, a few corporations have the potential to produce Class C products. As indicated above, however, those buyers with an eye on the Philippines are basically interested in products for the Class D market and can only offer low prices. As a result, Philippine producers are forced to sacrifice materials and design in order to meet these prices. With the exception of the few firms noted above (some of those classified into Group A), it will be difficult to develop the product planning and design capabilities required for Class C and higher markets.

One definite advantage of the Philippine costume jewelry industry is the availability of low-cost labor which can be mobilized at any time. "Low-cost labor," however, is a relative term; labor cost and quality must be compared with those in competing nations. Labor costs in the Manila area have already begun to rise, and in some cases are no longer capable of competing with Chinese standards. However, most producers of costume jewelry are located in Cebu, where firms can still compete on the basis of costs. The utilization of skillful labor formed on the basis of individual communities is a key point.

The inadequate infrastructure hinders firms attempting to expand their business. Improvements are needed in the areas of transportation, communications, and shipping. In terms of transportation and shipping, companies are forced to depend on a single airport with no replacement routes when it closes down. This sometimes interferes with local visits by buyers or overseas sales promotion activities by Philippine exporters. International communications also need to be improved, and numerous problems remain in terms of contacting the subcontractors within the Cebu region. The country also lags behind in the areas of electrical power supply and environmental measures.

4) Setting Development Targets

Costume jewelry import by the United States and Japan have not grown substantially, and the Philippine share remains insignificant. More important is the fact that the small market segment retained by the Philippines is the only available market for the current Philippine products. In other words, if the country is to expand costume jewelry exports, it will have to go beyond the confines of the Class D market which is the present targeted market.

Achieving such a transition will require consideration of local industry strengths. After the above discussion, the following strategies are recommended:

1. Existing capabilities or skills in the areas of design and material utilization should be utilized not only in the costume jewelry industry but for interior goods and souvenirs as well.

The Philippines already has a group of companies who have established themselves as handicraft producers, and just as in the costume jewelry industry competition is intense. Efforts to diversify these business are needed from the standpoint of individual management, but independent diversification does not always lead to development for the industry as a whole. Instead, it often moves the competition to another field.

2. Expanded sales of new materials in the Class D market

Well-defined suppliers already exist in this market, and new entries will further increase competition. Competition in this market is based mainly on pricing, and expanded exports may not lead to greater profits.

3. Some firms already have the planning capability to target Class C markets, and some could reach that level with a certain amount of work. Efforts should be made to promote sales of these products.

These companies need improvements in parts supply, timing, profitability, and market appeal for new products. Although there is a high possibility of success, the resulting increase in exports is likely to be rather small.

4. Based on operations at existing firms, new materials or new processing technologies should be developed in an attempt to penetrate the Class C market.

The development of products acceptable on this market should be relatively easy based on existing operations. Penetration of the Class B or Class A markets, however, will require modernization of operations, including subcontractors. Problems include the small demand for Class C products and the difficulty of predicting whether or not new materials would be accepted by this market. In consideration of future development, however, new materials and new processing technologies should be introduced.

5. Tieups with or the attraction of companies in costume jewelry exporting nations should be promoted as a means of penetrating the Class B market.

Any substantial expansion of exports will require sales to this market. However, fundamental improvements must be made in the local industry, and this will require a great deal of time. R. Korea and Taiwan together account for roughly half of all U.S. imports of costume jewelry. Increasing labor costs and labor shortages are becoming increasingly serious problems in these countries, and their costume jewelry industries are