

**CHAPTER - V*****PROBLEMS AND PROSPECTS OF THE INDIAN  
GEMS AND JEWELLERY INDUSTRY***

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In the present chapter, the problems which are being faced by the gems and jewellery industry have been identified and highlighted. Further, the technical gaps in the gems and jewellery sector, which are working as an obstacle for its development and hindering its exports from India, is also dealt with. The earlier chapter led to the conclusion that there is lot of scope and potential in varying degrees in the international market for gems and jewellery products in India. So, this goal may only be obtained if the problems and constraints which are being faced by the gems and jewellery sector be done away with. Therefore, the present chapter analyses and highlights the various problems and prospects of the gems and jewellery sector particularly with reference to the exports from India to the rest of the world.

**PROBLEMS AND CONSTRAINTS**

The gems and jewellery sector has been studied with regard to various aspects. Variables such as increased employment opportunities, introduction of modern marketing techniques, cost effectiveness, growth trends in value addition etc. are dealt with in detail.

With the overall analysis of the gems and jewellery sector, it may be concluded that the sector is almost based on import of raw material. As the quantity of raw material is increasing, the exports are showing a positive trend and have been achieving new heights every year. However, it should be noted that there are also drawbacks. There are reasons to believe why gems and jewellery exporters have certain constraints with them. Some problems related to production, consumption and marketing being faced by the manufacturers and exporters of the gems and jewellery products may be generic in nature while others may be specific to particular sub-sector. The problems may also be different for different business organisations or for

different size of business organisation. There are many problems and difficulties in the field of production, consumption and exports, but most important ones of these are listed below:

### **5.1 DEPENDENCE ON IMPORTS**

India largely depends on imports of raw materials for the gems and jewellery industry because the indigenous gems mineral production is far short of the actual requirements. Some of the known Indian mines, like those of diamond and gold, have been depleted by long, continuous exploitation, while others like those of emerald, sapphire, ruby, etc. have not been exploited systematically.

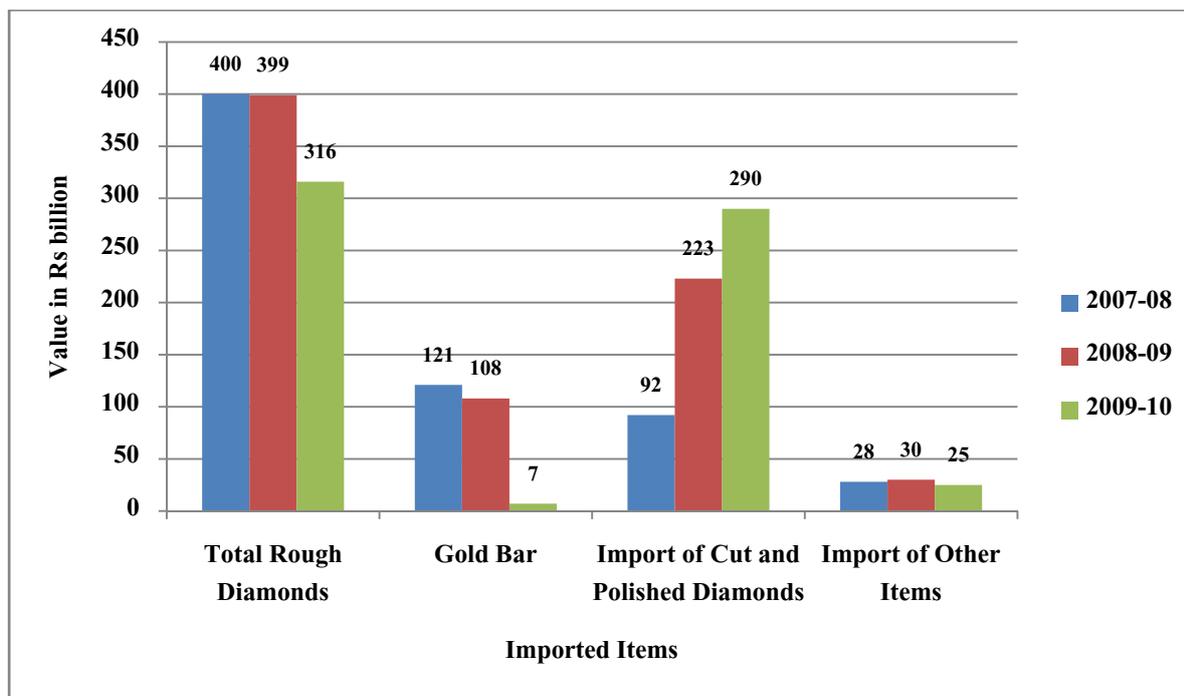
Efforts for tapping primary sources for raw material like the African countries and, lately, Australia have been going on for enlarging the supply base. Imports of rough diamonds, rough coloured gems and raw pearls stand exempted from import duties and auxiliary customs duty. Import of gold is officially regulated and undergoes periodic modifications. However, the Indian government withdrew the Gold Control Act (GCA), which was in force for many years.

Raw materials for gems and jewellery has special place in this industry. In India 90 per cent of raw materials is imported and its supply is limited. The raw material is processed and manufactured saleable commodity to sale in global market. Among these raw materials rough diamonds account for more than 50 per cent of imports. These rough diamonds are cut, polished and exported. According to World Gold Council (WGC), the consumer demand in India for gold in 2008-09 was 660.20 tonnes. Besides, India is also one of the largest importer and biggest consumer of silver in the world, according to Bombay Bullion Association (BBA).

India imports rough diamonds mainly from Belgium, the UK, Israel and the UAE etc. while gold jewellery is imported from Switzerland, South Africa, the UAE and Australia etc. Raw pearls and, precious and semi-precious stones are imported from Belgium, the UK and Hong Kong etc.

Europe has become the largest importing destination of raw material for Indian gems and jewellery industry.

**Figure – 5.1**  
**Imports of Raw Materials for Gems and Jewellery Industry during the**  
**Period 2007-08 to 2009-10**



**Source:** Gem and Jewellery Export Promotion Council (GJEPC)

*Other items include:* rough coloured gem stones and coloured gem stones, raw pearls and pearls, rough synthetic stones and synthetic stones, silver bars, platinum, gold findings/mounting and gold jewellery.

Figure-5.1 shows the India's imports of raw material of various gems and jewellery items during the period 2007-08 to 2009-10. The figure, clearly indicates that imports of rough diamonds and cut and polished diamonds are very high, which is a sign of import dependency of India gems and jewellery sector.

It is necessary to make the deal for the raw material at a very fair price, as it directly affects the cost of production and so the cost of exports does not let us stand in the competitive international market. But the cost of raw material is always on increase which adversely affects the exports. On the other hand, raw material or rough which is imported is not of good quality and so

accordingly processed good is not of competitive market level. But as far as diamonds are concerned, normally, roughs are imported from the UK at the behest of the Diamond Trading Company (DTC) or, alternatively bought in the open market and other centres, for processing to meet the requirements of the buyers in the USA, Japan and Germany. In the global market DTC, being a dominant body in the distribution of raw material, is able to decide the quality and price of the raw material to be offered to the importing countries. We are also very much under the influence of DTC. Not only this, DTC always tries to affect the price of the finished commodities sold in the western countries. It also controls diamond mines interest and has strong marketing influence on the diamond market. DTC has shown a tendency to supply inferior raw materials to India, while the quality of raw materials offered to Israel gives a better yield and these diamonds command better prices in the international market.

A closer look at the import of raw material by Indian gems and jewellery industry gives the cause of worry. The industry being dependent almost entirely on imported raw material, it is automatic that higher exports should lead to higher import. But the factor which causes worry is that excess imported raw material when exported gives less earnings in foreign exchange.

## **5.2 COMPETITION THREATS**

The overall volume of India's gems and jewellery exports is on the increase and there are a number of buyers in the market yet each one of them limits the purchase to his specific requirements. Because of untrained and unskilled labour India can not maintain his superior position in the world market. We are not adopting the scientific approach. On the other hand, other countries have developing the gems and jewellery industries very systematically and on a scientific line. The training institutes of those countries encourage innovation and conduct an extensive programme of research and development of advanced cutting and polishing process. Experimental polishing plants are operated. This has resulted in the

development and wide use of new automated, even computerized machines, which are streamlining and ever-perfecting these countries' production.

Although India currently enjoys dominance in the world's cut and polished diamonds market, China may emerge as a viable rival, if not in the near future term, certainly in the longer term. An increasing number of diamond processor from Israel, Belgium and even India are setting up facilities in China for a variety of reasons. The reasons range from a cheap and disciplined labour force to high economic growth in the country resulting in significant increase in potential consumers in the high income segment within China. And, also to the quality of Chinese workmanship which is steadily improving. China has all the strength of India like cheap economic labour, infrastructure and a welcoming government. It also offers attractive labour union terms and export-friendly policies. As the industry gets more competitive companies see themselves becoming increasingly efficient to compete. Technology is another area where the Indian gems and jewellery industry faces a long term threat from China. Also, there has been growing pressure in major diamond producing countries in Africa like Botswana, Namibia and South Africa to gain further economic benefits from diamond value chain, seeking investments in cutting and polishing industry. Such developments affect the prospects of Indian gems and jewellery industry.

On the other hand, Israel, one of the three biggest countries in diamond processing, is also emerging as a world coloured gemstones centre. Although, Israel mines no diamonds, yet it is one of the three biggest in diamonds, along with India and Belgium. Similarly, Belgium operates a scientific and research section too for technological advancement. There is even a social fund for the welfare of the highly skilled diamonds workers. In this way, we can say that Indian gems and jewellery industry has less systematic and scientific approach and has competition with many countries.

In the field of gold jewellery and studded jewellery our main competitor is Italy. This is the sector in which we are having many advantages like efficient artisans, low cost labour and demand of our goods in foreign

countries, even though our achievements in the trade of these products are not too many.

### **5.3 IMBALANCE GROWTH**

The gems and jewellery sector comprises a wide range of products like cut and polished diamonds, Gold jewellery, non-gold jewellery, coloured gemstones, pearls, costume/fashion jewellery, rough diamonds and synthetic stones. The discriminative feature of the industry is that too much emphasis has been given on one item, i.e., diamonds. Diamonds alone account for almost 85 per cent the total exports of gems and jewellery. On the other hand, very little attention is paid to exploit the export potential of other items of gems and jewellery.

### **5.4 CHANGING FASHION**

As we know change is the law of nature and ultimate truth of the world, every aspect of life requires change. So when some new design or pattern comes in jewellery, it is liked by most of the people and to wear that specific kind of jewellery becomes a trend. But this momentary choice becomes extinct after few months. This adversely affects the trade of gems and jewellery industry, specifically small traders.

International marketing needs a changing fashion of gems and jewellery particularly in the context of very high prices of diamond, gold and silver. We are not having enough establishments like a design development centre to provide feedback and to innovate new designs to catch up with fashion requirements of the foreign buyers. It is because Indian artisans are still on traditional path and government is not much bothered about more development in this field.

Indian artisans are still having the traditional tools for making jewellery. Of course, we are having a vast area of traditional art and craft even in the field of jewellery and ornaments made by our artisans which are liked by people of every country. But only artisans cannot fulfil the whole demand. A

man is after all man, labour can be done to any extent but cannot do as much work as a machine does. The jewellery of the latest designs cannot be produced in larger quantity or number due to less use of modern machines.

On the other hand, manufacturers according to the market demand manufacture specific type of gems and jewellery product. But as the fashion changes, demand of that type of product starts declining and eventually it finishes. This situation blocks the capital of manufacturer and the stock is collected. The manufacturer gives the stock to the broker for selling. The buyer reduces the cost of production to half in this situation: the sellers do not sell their product under the cost of product. Thus we must be aware of this undisputed fact that in the international horizon, that fashion changes very fast.

## **5.5 TRADITIONAL WAY OF CRAFTING**

Modernization is an essentiality of the present era. Modernization means new ideas and to use new techniques. But in respect of gems and jewellery sector traditionalism is preferred in comparison to modernization. It is certainly appreciable in the case of designs. But when we talk about tools and equipments, it is considered a drawback.

Utilisation of hi-tech, speedy and efficient machinery and software has led to the gradual replacement of traditional/manual methods of polishing, manufacturing and designing of gems and jewellery. Proactive players in the Indian gems and jewellery industry are always on the lookout for better technology for their units. However, such technology absorption is relatively low in Indian gems and jewellery industry, due to the small size and unorganised nature of majority of the players.

Sometimes, we still use the same types of tools in all the process of gem cutting and polishing as were used 100 or 150 years back. This traditionalism has become the major problem of this industry. On the other hand, in foreign countries like Israel and Phillipine the craft has become completely mechanised and computerised. For example, in Phillipine 'Phillipine Cut' of

diamond has been developed. Manila Gems Polisher Corporation (MGPC) has innovated a hitherto unknown cut dividing the light-star facets on the otherwise 57-faceted stone, and making for a diamond with a total of 65 facets. This cut has been given the name 'Phillipine Cut'. Similarly in case of polishing, traditional way of diamond polishing is used. Thus the low utilisation of modern and automatic machines capable of cutting and polishing small diamonds is a handicap of Indian gems and jewellery industry. Due to the application of traditional methods and machines, productivity is lacking. The replacement requires a substantial amount of capital which is not easily possible for the Indian gems and jewellery industry to contribute for the purpose.

## **5.6 LABOUR**

### **5.6.1 Lack of Training Facilities:**

Lacs of labourers are engaged in gems and jewellery industry of India. Various stages are included in the work of processing. And, they require a lot of practical knowledge and attention. So training is necessary in this field. But, on the other hand, number of institutions related to gems and jewellery training in India are less. And, all these institutions give only theoretical knowledge, which is not applicable in trade. Most of the labourers engaged in gems and jewellery industry are illiterate and they cannot acquire information about institutions and also cannot pay for them.

### **5.6.2 Existence of Casteism:**

Existence of casteism is a main drawback of gems and jewellery industry. For example, Jaipur is the centre of manufacturing precious and semi-precious stones and here different cuts are having importance in different processes of gem cutting. In the process of ghat-making the Muslims are having an upper hand. Near about 90 per cent labourers engaged in this process are Muslims. Local goldsmiths do the work of traditional kundan-meena jewellery. Specific castes have possession of particular works of processing. They support and encourage the persons of their own caste.

Any trainer belonging to the Muslim community accepts a non-Muslim trainee only in some exceptional cases. This acceptance is not given even for a very skilled person. Just contrary to this, an unskilled person from the Muslim community is accepted as a trainee without any hitch or enquiry about the zeal, aptitude or interest of the trainee. Near about the same approach is shown by the Gujratee trainers. They also do not prefer non-Gujratees as trainee. Because of this negative approach of trainers, so many inefficient persons have entered in the occupation of polishing and cutting and on the other hand so many skilled persons possessing real aptitude for the work are kept out of this industry. In other words, it can be concluded that the reason for this problem is not that in this industry some castes are having the monopolistic rights but they give all incentives and facilities to their caste fellows to enter the trade and discourage and prevent other from doing so.

### **5.6.3 Lack of Permanent Work:**

In gems and jewellery industry about 10 per cent of the total persons start trade every year. And, before the establishment of the trade they withdraw from the trade. In the case of ghat-making, there is no organizational set-up in any way. Individual ghat-makers go from door to door for inviting the work. Generally, they do not have any permanent place where they can be found except their houses. Due to the absence of any organizational set up, ghat-makers do not get a job for all the working days in a month. After finishing their work at one place they roam about in other localities in search of work.

In case of polishers, very specific types of problems are found. The Gujratees are dominating the polishing work, specially for precious stones like emerald and ruby. Most of them (almost 95 per cent) work at their homes; or it can be said that their homes and workshops are the same place. Women also take part in the processing. That is why they do not like to accept any non-Gujaratee as trainee.

#### **5.6.4 Unsuitable Working and Payment Conditions:**

India is continuously leading in the field of gems and jewellery sector. But the labourers are still living in a hopeless condition because of unsuitable working conditions and absence of set timetable. Trader takes works according to his requirements. If the labourer has no urgent work he must do work for more than twelve hours a day. On the other hand, in the situation where there is no work, the labourer is left less. This kind of working conditions discourage and demoralise the labourers. In the same way wages are not decided on a fixed basis. Also manufacturers do not pay wages on time. The industry has no organizational set up and so no vacancy is published in newspapers or magazines.

Another problem is that traders adopt the policy of discrimination. They don't provide labourers with the facilities of clean water, proper shade and proper light etc. All the artisans work in an unhealthy environment without proper light. In most of the gems and jewellery manufacturing units workers are forced to work in artificial light and that too, in remote, dark and dingy rooms. Therefore, persons possessing artistic approach and aptitude, sometimes don't like to join in any work of processing of jewellery because they do not want to face the problem of weak eyesight that is bound to be in the future.

#### **5.6.5 Use of Child Labour:**

Small boys, sometimes as young as 10 years old, work in hot sheds chiselling roughs which eventually get sold in the jewellery shops. Their nimble fingers and sharp eyes enable them to cut these diamonds in remarkable shapes, but while they earn well for these skills many of them find their eyesight getting progressively weaker as they grow older.

### **5.7 UNEMPLOYMENT**

The Indian diamond industry is, essentially, a closed family-based sector where the labour force is not systematically organised. Most of the

diamond units are unregistered and, hence reliable data on their existence, operations, labour force used etc. is not readily available. The data available with the government pertains to the registered units only. It is, therefore, not possible to ascertain the precise number of people in the diamond industry who have been rendered jobless.

**Table – 5.1**  
**Unemployed workers in Gujarat Diamond Industry in 2009**

<b>Name of District</b>	<b>No. of Diamond Units</b>	<b>No. of Diamond Workers</b>	<b>No. of Functioning Units</b>	<b>No. of Diamond Workers Engaged</b>	<b>Workers Who have lost their Job</b>
Surat	2,500	40,000	1238	2,00,000	2,00,000
Ahmedabad	900	1,00,000	315	42,000	58,000
Mahesana	32	9,450	20	5,670	3,780
Banaskantha	300	20,500	90	10,000	10,500
Patan	50	2,000	37	1,500	500
Rajkot	290	39,000	90	10,000	29,000
Amreli	1,450	60,000	250	12,000	48,000
Junagadh	125	10,000	20	2,000	8,000
Bhavnagar	900	70,000	170	14,000	56,000
<b>Total</b>	<b>6,547</b>	<b>7,10,950</b>	<b>2,230</b>	<b>2,97,170</b>	<b>4,13,780</b>

**Source:** Department of Labour, Government of Gujarat: Estimate Based on Surveys.

Table-5.1 clearly demonstrates the number of unemployed workers in diamond industry of Gujarat in 2009. Based on the survey conducted by the Labour Department of Gujarat, it is estimated that approximately 4.13 lakh workers have lost their jobs in the recession-hit diamond industry and only 2,230 diamond units are functioning properly. It is clear from the Table that approximately 58.20 per cent workers are unemployed.

## 5.8 FINANCIAL PROBLEMS

It is the main organ of the life of the commercial organization. In gems and jewellery industry since the most of the stones dealt with are expensive, hence the sector require more finance for investment. Apart from buying and labour businessmen has to pay transaction, insurance interest, commission, excise and customs etc. Every trader requires working capital for day-to-day payments. A big businessman can easily make such payments but a small trader cannot. In general grants are supposed to be the best source of financial assistance but these too help only big exporters, which again is problem for emerging exporters as like big exporters they don't have good will, sweet will and acquaintance with the bankers. They have to look for guarantors so everybody can't enter into exports. So in this field finance is the basic problem, which comes in the way of beginners on lower class exporters. Thus they are highly squeezed by the big ones. Exports require financial assistance as payment for exports are normally credited after one year and six months, so assistance is required only for this short period but the small scale exporters have to manage on their own. For this sort of arrangement they have to pay heavy rate of interest which again increases the cost of exports. Giving to aforesaid reason their goods are not able to stand in the world market and the goods, sent at consignment basis, are returned back with the note that high rates on goods remaining hanging whereas exporter keeps paying interest. It results in depletion of his own capital, tension on his nerves and on the top of it he remains dull during this waiting period, which results in double loss.

In recent times, the major problems faced by gems and jewellery exporters in sourcing their capital requirements are as follows:

- (i) High interest rate being charged by the banks on export credit.
- (ii) Scarcity of dollar credit for sourcing of rough diamonds.
- (iii) Reduction in sanction on extension of credit limits to gems and jewellery exporters.
- (iv) Biased rating of gems and jewellery firms by credit rating agencies.

In this way timely availability of the finance at nominal rate of interest is the main requirement. On the other hand, formalities of the financial organization are so much that it is a highly time consuming process.

### **5.9 PROCEDURAL HARDSHIPS**

Government of India controls the trade and industries and formulates policies for export and import. Gems and jewellery trade, being mainly an export-oriented industry, is very much affected by its policies. As the trade has to import the raw material and export the manufactured goods again, so it has to abide by the prevailing policies of the government which keep changing from time to time. These changes put exporter into a lot of troubles. Export and import involved a lengthy procedure. In reality the work involved is too much. The time and trouble involved in process of exports is a heavy burden on a exporter, particularly on a small exporter. For example, all the exporters, who are the members of the GJEPC, are supposed to file all the information regarding the exports like the number of pieces exported, details of returned items, value of goods exported and purchased etc. Exporters in general are facing a number of problems in bank transactions. In dealing with a bank also they are supposed to submit a number of documents and fulfill many formalities.

### **5.10 PRICING**

Products of gems and jewellery don't have fixed prices. The units of the weight of gemstone used are 'carats' and 'cent' in gem industry and units of the weight of pearl used is 'gram' and 'chau'. Traders according to their own will and on the basis of requirement of customer put the price of the product.

For instance, if in gems and jewellery sector any trader required four m.m. square emerald, in this situation, the broker fulfils the requirement of the trader but puts the price very high due to urgent need. The buyer has to purchase the product at high price. This uncertainty is applied to the whole market. Small influenced traders suffer in this industry because

manufacturing is done on small scale by such traders and they have to sell their products as they cannot keep it in stores for a long time, and big influenced traders buy from them at low prices as they have large consumption of products and direct link with foreign countries.

In the same way, customers are also the victims of that problem. Due to uncertainty of price of various products of gems and jewellery the sellers put the price according to living standard of customer and gestures. Actual problem arises when that customer sells the same product to any other trader and he is given a lesser price in comparison to what he has already given for. Thus, there is no criterion of the pricing determination in this trade. On the other hand, gold prices have doubled over the past three years. Such a sharp rise is usually associated with risky investment assets as equities. The sizzling gold price is one of the reasons for drop in gems and jewellery sales.

### **5.11 SEIZURES**

In gems and jewellery industry of India seizure is a main problem for the traders. Interlink departments in the process of export can seize the stock. The seizure of such stock-in-trade products as jewellery, bullion and precious stones create great difficulties for assesses as it results in the cessation of their manufacturing operations, potentially resulting in the breakdown of their entire trade. The industry's products depend largely on sales and the seizure of stock-in-trade also lead to loss of sales for the industry and therefore, for the country. Most of the exporters are frustrated because of seizure made by different departments very frequently. Under the corresponding or interlinked sections in different acts the Revenue Intelligence, Customs, Foreign Exchange, Enforcement and even Sales Tax department have the authority to check the stocks and seize them for verification. They do exercise this authority on the assumption that all the exporters are indulged in malpractices.

It is very true that government officials act according to prescribed rules but practical pros and cons should also be kept in mind before any action or seizures. Associations of exporters never object to the practice but they are against the practice of government officials harassing them for no concrete reasons. Exporters claim that even if the suspicion or discrepancy relates only to small part of the stock, the entire stocks are taken away. Once the stocks are seized, they are seldom returned even after the expiry of many months and sometimes even years.

The seizures of stock-in-trades cause traders to default in their repayment commitments to suppliers, banks and other financial institutions. This deters suppliers from dealing with traders and the banks and financial institutions from extending credit facilities to them.

## **5.12 LOW LEVEL OF QUALITY AND PRODUCTIVITY**

The labour force in Indian gems and jewellery sector is less productive as compared with China, Thailand, the USA, the UK, Sri Lanka and Israel. This may be due to reasons like long hours of work, uneasy work environment and no friendly atmosphere is created. The workers therefore are not motivated to work so resulting in low productivity. On the other hand, the share of India in medium and large sized diamonds is comparatively less when compared with other countries because of less emphasis on quality. Therefore, to remain competitive in the world market Indian traders will have to improve the quality of their diamonds.

## **5.13 TRANSPORTATION**

Transportation is the nerve knot of gems and jewellery industry of India. Traders in gems and jewellery industry fall a victim to the problem of not being able to fulfill the demand of products. They also fill the absence of any professional organization or government counter, so that they may purchase raw material of gems and jewellery according to their necessities. Export is an essential hardship. The clearance of parcel from custom and other formalities take a lot of time and after the dispatch of parcel it reaches in the

foreign country within 5-6 days. To overcome this problem, exporters dispatch their parcel from Delhi and the parcel reaches the country concerned within one day. But the parcel of such a precious thing is not safe.

Accordingly, traders are concerned more about the problems of transportation. If a trader of Jaipur imports the raw material of gems and jewellery from any foreign country; then the parcel of imported raw material will come first to Mumbai or Delhi and then it will come to Jaipur. Imported parcel reach Mumbai or Delhi from any of the foreign countries within one day and from Delhi/Mumbai it comes to Jaipur within two days. In this way parcel do not reach at the right time. Thus it is clear that transportation facilities are not proper.

#### **5.14 DEPARTMENTAL VALUATION**

One aspect which creates insurmountable problems for the exporters is that in ninety-nine per cent of the cases the department disputes the ownership on the basis of the colour or clarity grading given by the departmental valuers after minute examination. The department follows the practice of grading or valuation given by a member of the panel of approved valuers who are mostly engaged in retail business in the domestic market and, therefore, do not have sufficient knowledge of how international trade is carried on. An exporter generally does the grading on an overall or lot basis and gives a description that suits his customers requirements. Based on such higher valuation, the department invariably accuses the exporter of under-valuation of stocks, thus widening the gulf.

#### **5.15 LACK OF STANDARDISATION**

In India, jewellery consumption is primarily of gold. The bulk of the Indian jewellery buying is still rooted in tradition, and jewellery is sold in traditional designs. Gold jewellery is also bought as an investment. In the present system of selling gold jewellery in India the purity may or may not be standard and the buyer's loss-cheating on caratage and purity is wide spread. India is the larger exporter of diamonds in the world, but the

diamonds are not standardized. The same size, colour and weight diamond may mean different things to traders around the world. The Diamond Trading Company (DTC) should take steps to ensure that the diamonds are standardized the same in size, colour and weight so that the dealers and clients are not cheated at any point of time.

### **5.16 ANTI SOCIAL ACTIVITIES AND THREAT OF TERRORISM**

For people jewellery is their secondary need and they purchase it only after the fulfillment of their basic needs. If any country or part of the country is affected by terrorism then the people of such a country would not like to buy jewellery. They will think about their basic necessities and protection.

Anti social activities are on the rise especially in places like Mumbai. Security has become one of the major concerns for the gems and jewellery sector. A loss of packet of diamonds can cause a lot of loss of money from our pockets. In recent times there are a lot of robberies happening in broad daylight without even anyone noticing it. Therefore, there should be an increase in security facilities.

On the other hand, an example of the insecurity in international trade is the terroristic attack on the World Trade Centre (WTC) of America in year 2001. This type of terroristic activities has been resulting in a great loss to the trade of gems and jewellery in India. Similarly, Indo-Pak relation is also another problem to affect gems and jewellery trade in India.

### **PROSPECTS:**

The Indian gems and jewellery market is one of the largest in the world. The industry is characterised by highly unorganized trade, labour intensive operations, working capital and raw material intensiveness, price volatility of gold and export orientation. The gems and jewellery industry plays a key role in the Indian economy, and commands a high percentage

of the exports from the country. Gems and jewellery exports accounted for 16.44 per cent of India's total exports in 2009-2010. This industry is 100 per cent export-oriented industry in every respect. Indeed, it is great achievement that India is enjoying the first position in connection with diamond production, in terms of manpower employed, caratage and the number of pieces. The industry provides employment to around 3.2 to 3.4 million people directly.

The Indian gems and jewellery products are sold in the international market due to its unique artistry and finishing, but in the present scenario our various competitor countries like China P RP, Thailand and Israel are gradually replacing the traditional gems and jewellery products. Due efforts have been made in this direction and the liking for gems and jewellery products is continuously increasing in the global market. The sector witnessed a CAGR of 16.59 per cent of India's exports of gems and jewellery during the period 1990-91 to 2009-10.

### **Indian Gems and Jewellery Sector and Globalisation**

Considering the country's competitive advantages and the prevailing trends in the global gems and jewellery industry highlighting shift towards emerging markets of India and China, the future holds bright for India. India plays a very significant role in global gems and jewellery market, equally as a source and consumer. The industry is one of the fastest growing and leading earners of foreign exchange in the country. The size of the Indian jewellery market is the largest in the world, second only to the US market, followed by China P RP, Japan and Italy.

Gold jewellery and diamonds are two principal segments of the industry. While a large portion of gold jewellery manufactured in the country is used for domestic consumption, the processed uncut diamonds are mostly exported as finished diamond jewellery or polished diamonds. India is the leading diamond cutting nation besides being the biggest gold consumer.

However, in addition to flourishing gold and diamond market, the silver market is also enjoying steady inflows, whereas, platinum is gaining constant consumer interest. Indian gemstone industry, having a projected turnover of US \$ 0.22-0.26 billion, is also showing signs of growth. Another trend that is speedily picking up is the evolution of branded jewellery market, which has gained much acceptance from the consumers due to added assurance of quality, reliability and style. Trends also reveal that machine made jewellery is acquiring the market from regular handcrafted jewellery because of wide spectrum of jewellery ranges offered by the industry. India has potential to cater to the demands of all the markets, national as well as international.

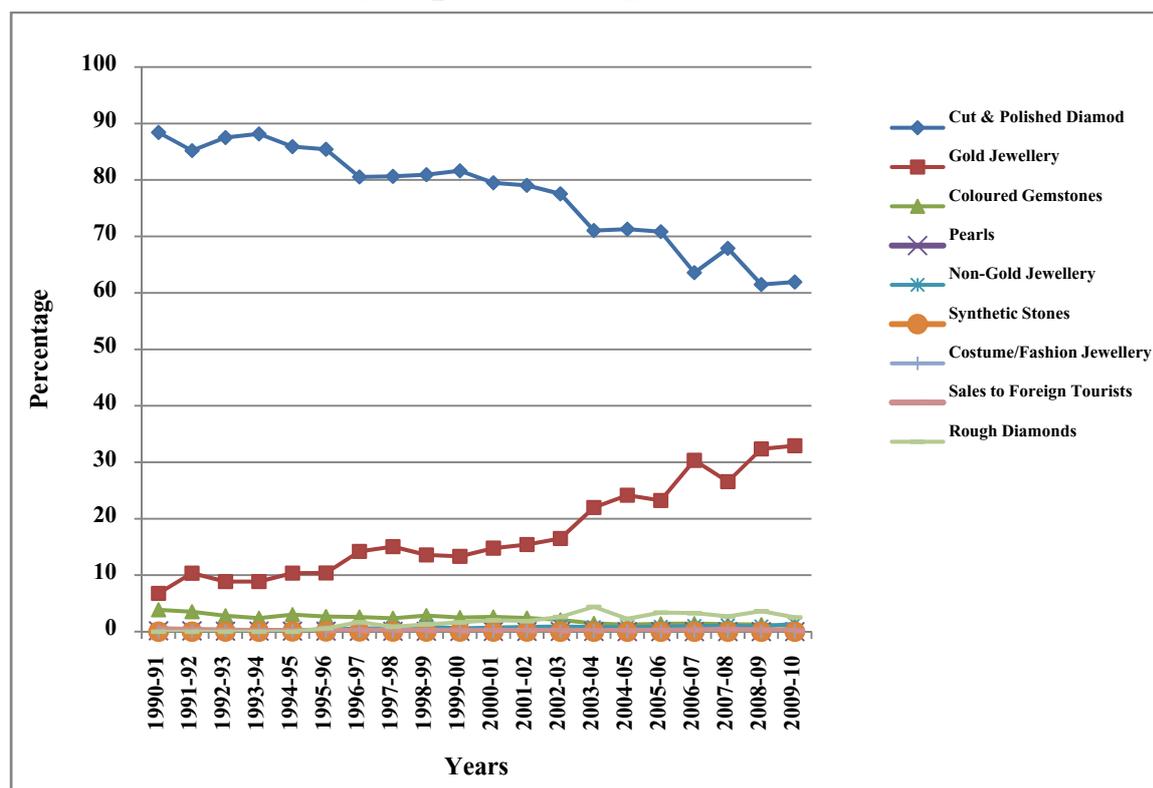
In the changing world scenario, gems and jewellery products exported to various countries form a part of life styles in global market. The effect is due to the changing fashion and consumer preference. In the view of this it is high time that Indian gems and jewellery sector went into the details of changing design, pattern, product development, requisite change in production facilities for a variety of materials, production technique and related expertise to achieve a leadership status in the fast growing competitiveness with other markets.

The product-wise analysis for gems and jewellery exports explores that Indian product-wise exports excessively concentrated on cut and polished diamonds and gold jewellery although India's item-wise exports concentration in the pearls, non-gold jewellery, synthetic stones, costume/fashion jewellery and rough diamonds is very low.

Figure-5.2 shows the product-wise share of Indian gems and jewellery exports. From the figure it is clear that cut and polished diamonds are demanded by importing countries in the largest quantity and accounted more than 80 per cent for the period 1990-91 to 1999-2000. But after this period it starts declining. Gold jewellery is the second largest product for gems and jewellery exports. This product is showing an increasing trend in the share of total exports of gems and jewellery during the period 1990-91

to 2009-10. It is evident from the figure that cut and polished diamonds and gold jewellery among the products, accounted for 90 percent the export value of total exports of gems and jewellery.

**Figure – 5.2**  
**Percentage Shares of Gems and Jewellery Products in India's Total Gems and Jewellery Exports during the Period 1990-91 to 2009-10**



**Source:** Calculated on the basis of data given in Table 3.1

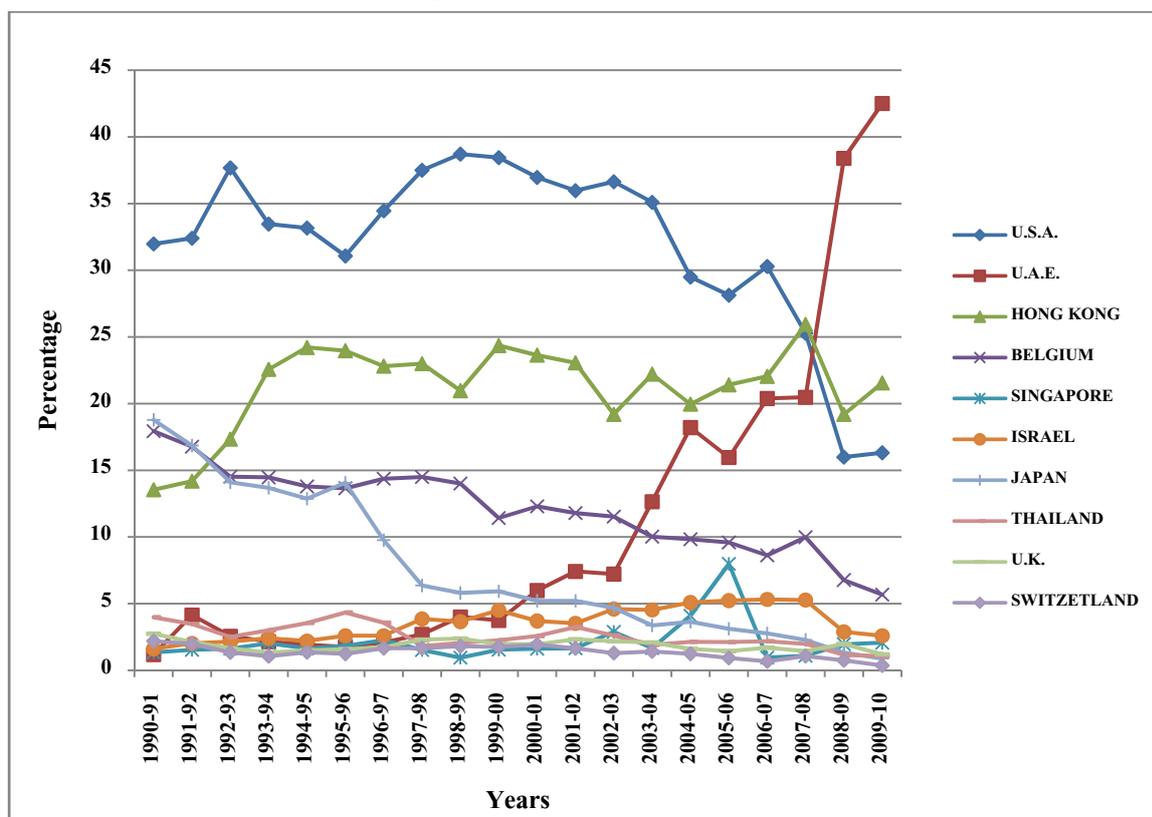
The country-wise analysis of gems and jewellery products exports demonstrate that Indian gems and jewellery is excessively concentrated on the USA, the UAE, Hong Kong, Belgium and Singapore although India's export concentration of gems and jewellery exports in the UK, Switzerland, Thailand, Japan and Israel is very low.

Figure 5.3 depicts the ten major destinations for Indian gems and jewellery exports. The figure indicates that the USA is one of the largest importing countries of Indian gems and jewellery products and accounted more than 30 percent for the period of 1990-91 to 2006-07, but its share starts declining from the year 2007-08. The UAE is the second largest

destination for gems and jewellery exports. The share of this country in India's gems and jewellery exports showed the increasing trend during the period 1990-91 to 2009-10. It is clear from the figure that the USA, the UAE and Hong Kong, among themselves, accounted for 80 percent of the export value of total exports of gems and jewellery.

**Figure – 5.3**

**Percentage Shares of Major Destination Countries in India's Total Gems and Jewellery Exports during the Period 1990-91 to 2009-10**



Source: Calculated on the basis of data given in Appendix XIII

### High Export Potential:

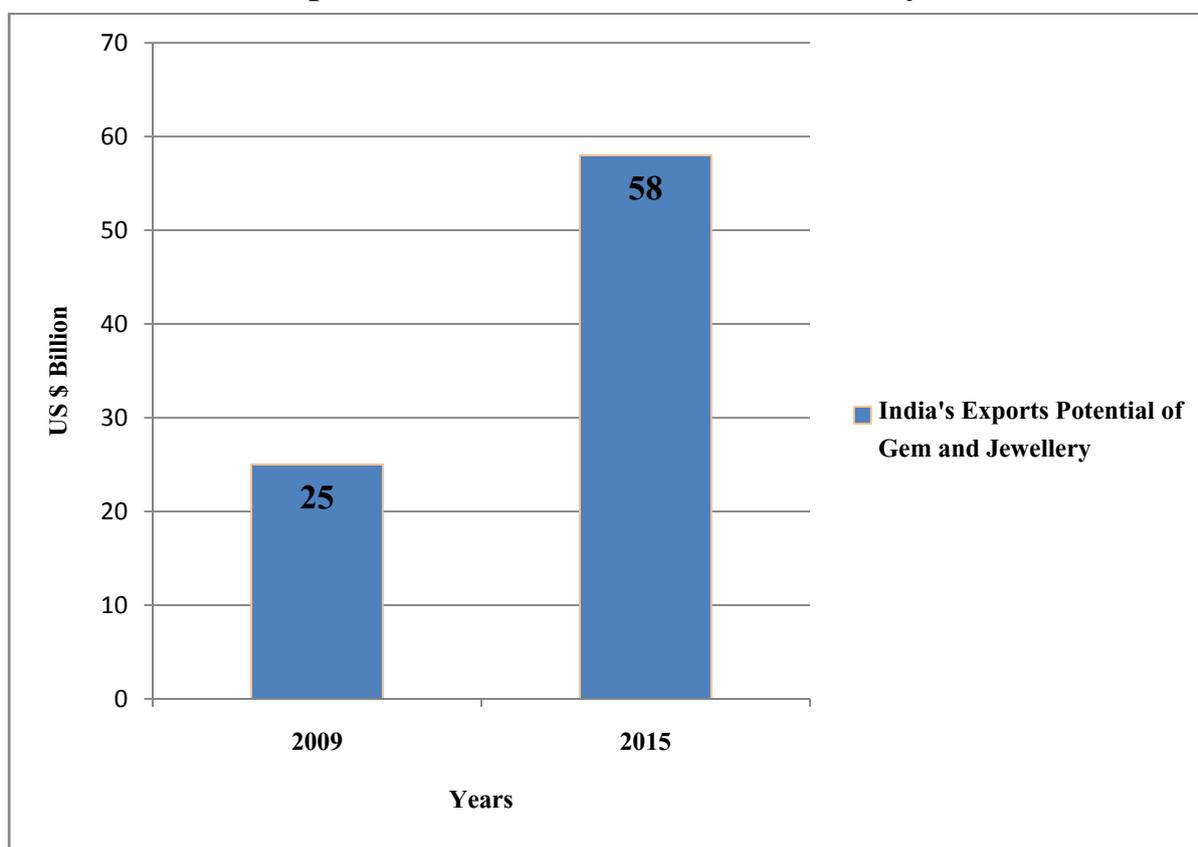
According to white paper by the Federation of Indian Chambers of Commerce and Industry (FICCI) the gems and jewellery industry has the potential to grow from the present estimate of \$ 45 billion to \$ 100 billion by 2015. The report stated that the gems and jewellery industry featured two major sub-segments gold and diamonds, with the former constituting 80 per cent of the jewellery market. A major chunk of gold jewellery manufactured

in India is for domestic consumption, whereas a major portion of polished diamonds or finished diamond jewellery is exported, it noted.

The domestic gems and jewellery market is estimated to be in the \$ 18 to \$ 20 billion range. “Given the fragmented nature of the industry it is difficult to put a figure on the exact size. The industry is expected to grow at around 13 per cent annually and could reach \$ 35 to \$ 40 billion by 2015” Keeping in view the findings of the report, it is predicted that the domestic market and exports together had the potential to grow \$100 billion by 2015, from its current size of about \$ 45 billion.

**Figure – 5.4**

**India’s Export Potential of Gems and Jewellery Products**



**Source:** Gem and Jewellery Export Promotion Council (GJEPC)

Figure-5.4 shows that in the exports of gems and jewellery products, India has made credit-worthy progress over the years if one goes by the volume of foreign exchange earned every year. The sector is expected to grow at a CAGR of 15 per cent to reach a size of US \$ 58 billion by 2015

from current US \$ 25 billion. The government has taken significant steps for the gems and jewellery exports in terms of duties and taxes, infrastructure and policy. In addition, rising consumer affluence and economic liberalisation is opening up new opportunities in the sector.

Thus, the future of India gems and jewellery industry is quite promising, as more and more buyers across the world are turning to India as their referred source of the quality for gems and jewellery products. But there are challenges ahead, the skilled man power and technology to create and produce designs for the international markets is the main challenge among others.

### **POLICY IMPLICATIONS BY THE GOVERNMENT TO BOOST EXPORTS**

The Government of India has been working to develop the gems and jewellery sector in India through various policies. Over the years the Indian government has taken the following measures to boost growth of the gems and jewellery industry:

- (i) The Indian gems and jewellery export industry had its modern beginning in the 1960s, when the Government of India introduced the Replenishment (REP) licence, allowing an importer to import rough diamonds worth 80 per cent of the value of his exports. At the outset, a 45 per cent custom duty was levied on rough diamond imports, but this duty was reduced to nil in the Union Budget of 2003-04.
- (ii) To promote the exports of gems and jewellery, the government has set up various Special Economic Zones (SEZs) with specific incentives provided to units in SEZs. Some important government policies relating to SEZs in the gems and jewellery sector are highlighted below:
  - No import or export of rough diamonds will be permitted unless the shipment parcel is accompanied by the Kimberley Process

Certificate (KPC) issued by the development commissioner.

- Cut and polished diamonds and precious and semi-precious stones (except rough diamonds, precious and semi-precious stones having zero duty) shall be allowed to be taken outside the SEZ for sub-contracting.
  - A gems and jewellery unit may receive plain gold/silver/platinum jewellery from the Domestic Tariff Area (DTA) or from an Export Oriented Unit (EOU) or from a unit in the same or another SEZ in exchange of equivalent content of gold/silver/platinum contained in the said jewellery after adjusting permissible wastage or manufacturing loss allowed under the provisions of Foreign Trade Policy (FTP) read with the handbook of procedures.
  - The DTA unit undertaking sub-contracting or supplying jewellery against exchange of gold/silver/platinum shall not be entitled to export entitlements.
- (iii) The EXIM policy for 2002-07 contains a special focus on exports of gems and jewellery through market access initiative schemes, duty free imports and appropriate adjustments in value addition norms.
- (iv) In 2004-05 the government lowered import duty on platinum from US \$ 13.82 per 10 gm. to US \$ 5.03 and exempted rough coloured precious gemstones from customs duty at the first stage itself, instead of claiming reimbursements later.
- (v) Rough and semi-precious stones are already exempt, a move aimed at further promoting the exports of studded jewellery and platinum jewellery.
- (vi) Import of gold of 18 carat and above allowed under the replenishment scheme subject to the import being accompanied by an Assay Certificate (AC) specifying the purity, weight alloy content.

- (vii) In 2007 the government has been allowed 100 per cent Foreign Direct Investment (FDI) in gems and jewellery sector and abolished import duty on polished diamonds.
- (viii) Cutting and polishing of gems and jewellery treated as manufacturing for the purposes of exemption under section 10A of the Income Tax Act (ITA).
- (ix) **Fiscal Stimulus Measures:**

The Reserve Bank of India (RBI) announced certain fiscal stimulus measures in December 2008 to revive the Indian economy during the onset of the global financial crises. The following measures were announced for the Indian gems and jewellery sector:

- Increasing the post-shipment rupee export credit period from 180 days to 270 days from November 28, 2008.
- Increasing the pre-shipment rupee export credit period from 180 days to 270 days from November 15, 2008.
- Providing an interest subvention of 2 per cent up to March 31, 2009, subject to minimum rate of interest of 7 per cent per annum, to make pre and post-shipment export credit for gems and jewellery more attractive.
- Allowing exporters to avail refund of service tax on foreign agent commissions of up to 10 per cent of FOB value of exports. They will also be allowed refund of service tax on output services while availing of benefits under Duty Drawback Scheme (DDS).
- Banks will charge interest rate not exceeding Benchmark Prime Lending Rate (BPLR) minus 4.5 per cent on pre-shipment credit up to 270 days and post shipment credit up to 180 days on the

outstanding amount for the period December 1, 2008 to September 30, 2009.

(x) In the annual supplement to Foreign Trade Policy 2004-09, which announced on April, 2007, the Government has extended the following facilities to gems and jewellery sector:

- Service Tax on services (related to exports), which is rendered abroad, has been exempted.
- Re-import of diamonds and jewellery (either in complete or partial lot) exported on consignment basis has been allowed.
- In the light of increase of global prices of precious metal, duty free entitlement for consumables for exports of rhodium plated silver jewellery has been increased to 3 per cent.
- To reduce the transaction cost for the diamond sector, testing facility at International Diamond Laboratory (IDL), Dubai has been incorporated in the list of laboratory/certifying agencies.
- Duty free import entitlement of tools machinery and equipment has been allowed.
- Categorization of exporters as one to five star export houses has been changed to export houses and trading houses with rationalization and change in export performance parameters.
- In addition, government has decided to make gold hallmarking mandatory from January, 2008. It has also made the import of polished diamonds completely duty free. This will facilitate the sector towards evolving from being just a manufacturing centre to becoming a global trading hub for gems and jewellery.

- (xi) The government is also set to unveil the new mining policy to make it easier for foreign and domestic firms to invest in the exploration and mining of diamonds, gold and other metals.
- (xii) In the budget 2008-09 import duty has been exempted on Rough Cubic Zirconia and reduced import duty on cut and polished Cubic Zirconia and Rough Coral from 10 per cent to 5 per cent. In addition, the net profit rate was reduced from 8 per cent to 6 per cent for all assesses engaged in diamond manufacturing and trading sector under benign assessment procedure.
- (xiii) **Export Facilitation Measures by the Ministry of Commerce and Industry**

Gems and jewellery, diamonds and precious metals were given a special boost by the Ministry of Commerce and Industry, Gem and Jewellery Export Promotion Council (GJEPC) and star trading houses in the gems and jewellery sector. In February, 2009, the gems and jewellery sector got a special boost from the Ministry of Commerce with the following announcements:

- Surat, Gujarat has been given the recognition of a town of export excellence, because it is home to thousands of diamond units that employ many diamond workers.
- The authorized persons of gems and jewellery units in export oriented units will be allowed to carry personal carriage of gold in primary form up to 10 kg in a financial year subject to the RBI and customs guidelines.
- Import restrictions on worked corals have been removed to address the grievance of gems and jewellery exporters.

(xiv) **Foreign Trade Policy 2009-2014**

Foreign Trade policy has identified the gems and jewellery sector as a thrust area with prospects for export expansion and employment generation.

The highlights of the policy are:

- Duty free import entitlement of consumables for metals other than gold, platinum will be 2 per cent of FOB value of exports during the previous financial year.
- Duty free import entitlement of commercial samples shall be Rs. 300,000.
- Duty free re-import entitlement for rejected jewellery shall be 2 per cent of FOB value of exports.
- Import of diamonds on consignment basis for certification/grading and re-export by the authorised offices/agencies of Gemological Institute of America (GIA) in India or other approved agencies will be permitted.
- To promote export of gems and jewellery products the value limits of personal carriage of gems and jewellery products in case of holding participating in overseas exhibitions increased to US \$ 5 million and to US \$ 1 million in case of export promotion tours. Further, the limit in case of personal carriage, as samples, for export promotion tours, has been increased from US \$ 0.1 million to US \$ 1 million.
- Extension in number of days for re-import of unsold items in case of participation in an exhibition in the US increased to 90 days.
- In an endeavour to make India a diamond international trading hub, diamond bourses will be planned.
- Gems and jewellery units may sell up to 10 per cent of FOB value of exports of the preceding year in Domestic Tariff Area (DTA), subject to fulfillment of positive Net Foreign Exchange (NFE). In respect of sale of plain jewellery, recipient shall pay concessional rate of duty as applicable to sale from nominated agencies.

- (xv) In budget 2009-10 customs duty on serially numbered gold bars (other than total bars) and gold coins has been increased from Rs. 100 per 10 gram to Rs. 200 per 10 gram. Customs duty on other forms of gold has been increased from Rs. 250 per 10 gram to Rs. 500 per 10 gram. And, customs duty on silver has been increased from Rs. 500 per kg. to Rs. 1,000 per kg. These increases have also been applicable when gold and silver (including ornaments) are imported as personal baggage.
- (xvi) In budget 2010-11 the basic customs on rhodium, which is a precious metal used for polishing jewellery, has been reduced to 2 per cent. Basic customs duty on gold ore has been reduced from 2 per cent and valorem to a specific duty of Rs. 140 per 10 grams of gold content with full exemption from special additional duty. Further the excise duty on refined gold made from such ore or concentrate reduced from 8 per cent to a specific duty of Rs. 280 per 10 grams. The positive side of this budget is that the import of gold ores have been allowed, which will help in gold importing in India that would somehow curtail the smuggling aspect.

Thus it can be fairly and logically concluded that various policy initiatives have been taken from time to time to boost the gems and jewellery sector by government. While the focus is clearly on export promotion, the liberalised policy regime will help traders perform better in the domestic as well as global market.

**NOTES AND REFERENCES**

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