



## Need of Reforms in Diamond Sector

**For Prelims:** [Diamond](#), Rough Diamonds, [Gross Domestic Product \(GDP\)](#), [Employment](#), [Foreign Direct Investment \(FDI\)](#), [Reserve Bank of India \(RBI\)](#), [Inflation](#), [Lab-Grown Diamonds](#), [Interest Rate](#), [Corporate Tax](#), [Special Notified Zones \(SNZs\)](#), [India-UAE Comprehensive Economic Partnership Agreement \(CEPA\)](#).

**For Mains:** Importance of Gems and Jewellery Industry for India, Associated challenges and way forward.

[Source: BS](#)

### Why in News?

According to the think tank **Global Trade Research Initiative (GTRI)**, India's [diamond sector](#) is experiencing a major downturn, marked by significant **declines in imports and exports** over the past **three years**.

- It has led to defaults, factory closures, and widespread job losses for which reforms in the diamond sector are needed.

### What is the Current State of Crisis in India's Diamond Industry?

- **Sharp Decline in Diamond Imports and Exports:** Rough diamond imports **fell by 24.5%**, from **USD 18.5 billion** in FY 2021-22 to **USD 14 billion** in FY 2023-24.
  - **Exports** of cut and polished diamonds dropped by **34.6%**, from **USD 24.4 billion** in FY 2022 to **USD 13.1 billion** in FY 2024.
- **High Inventory of Unprocessed Rough Diamonds:** The **gap** between net imports of rough diamonds and net exports of cut and polished diamonds has **widened significantly**, from **USD 1.6 billion** in FY 2022 to **USD 4.4 billion** in FY 2024.
  - **Rough Diamonds refer to** diamonds which are still in their **natural state** after being removed from the earth and **before being shaped and polished**.
- **Increased Returns of Unsold Diamonds:** The percentage of [unsold diamonds](#) returned to India rose from **35% to 45.6%** during the period from FY 2022 to FY 2024.
- **Impact on Employment and Factory Closures:** The industry, which provides direct employment to **1.3 million workers**, has been hit hard leading to joblessness and suicides.

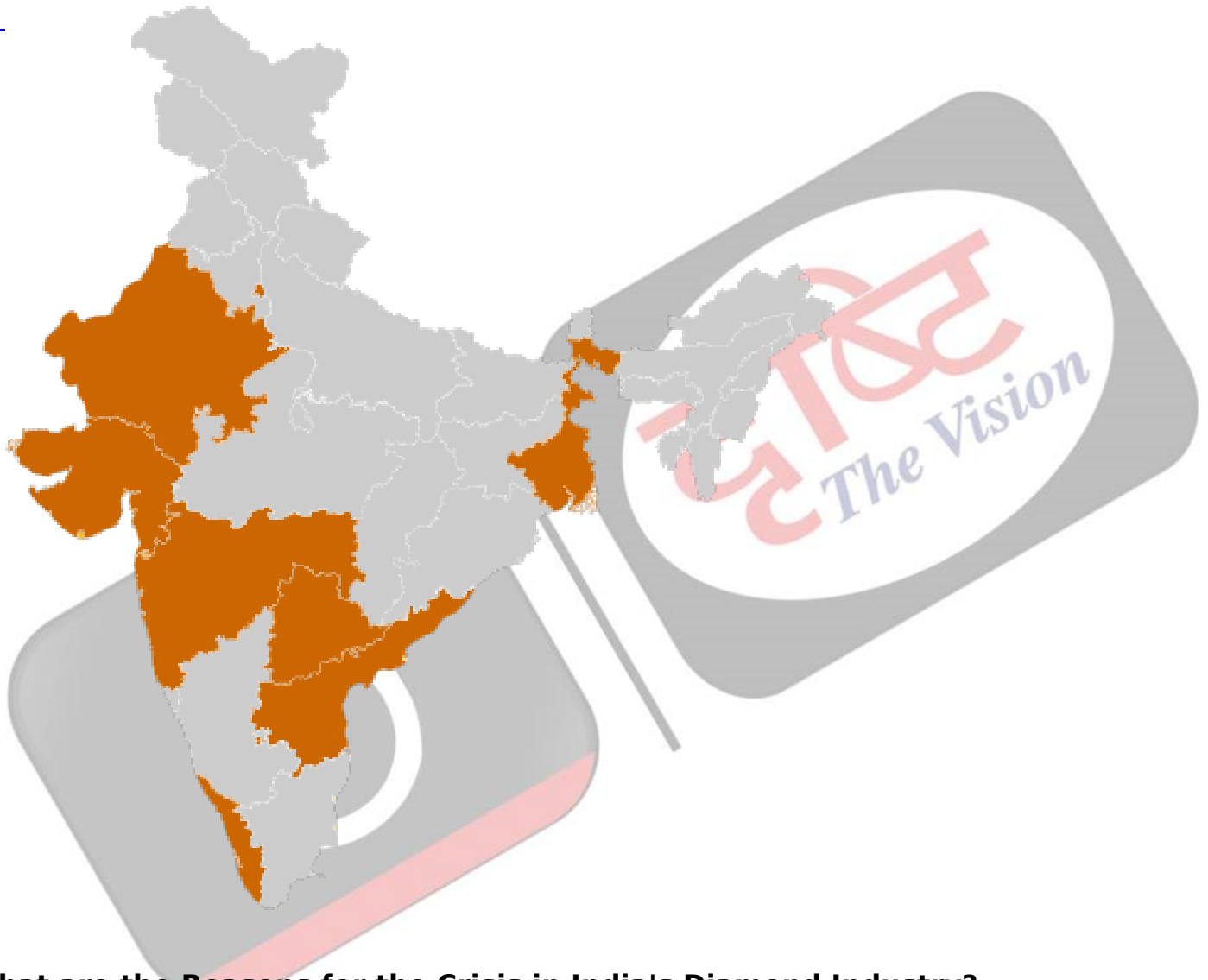
### What is the Importance of Gems and Jewellery Industry for India?

- **Contribution to India's Economy:** As of January 2022, the gold and diamond trade accounted for approximately **7%** of India's [Gross Domestic Product \(GDP\)](#), showcasing its **significant role** in the national economy.
- **Employment:** The gems and jewellery sector [employs](#) around **5 million people**, making it a crucial industry for job creation in India.
  - The Indian diamond industry comprises **over 7,000 companies**, mainly [small and medium enterprises \(SMEs\)](#), concentrated in Surat in Gujarat, and Mumbai in

Maharashtra.

- **Surat, Mumbai, Jaipur, Thrichor, Nellore, Delhi, Hyderabad and Kolkata** are the major hubs for gems and jewellery in India.
- **Surat** alone employs about **800,000 workers** in diamond cutting and polishing.
- **FDI Policy:** The Government has allowed **100% Foreign Direct Investment (FDI)** in the gems and jewellery sector under the **automatic route**.
  - Between April 2000 and March 2024, **cumulative FDI inflows** into India's diamond and gold ornaments sector totaled **USD 1,276.52 million**.
- **Growth and Export Performance:** In FY2021, the size of India's gems and jewellery market stood at **USD 78.50 billion**.
  - In FY24, India's gems and jewellery **exports** were at **USD 22.27 billion**, reflecting the sector's resilience despite global challenges.

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## What are the Reasons for the Crisis in India's Diamond Industry?

- **Economic Uncertainty:** Demand for polished diamonds has **dropped** sharply in key markets like the **US, China, and Europe** due to **economic uncertainty, inflation, and geopolitical tensions**, leading to reduced consumer spending on luxury goods, including diamonds.
- **Russia-Ukraine Conflict:** The **Russia-Ukraine conflict** has also disrupted the **global diamond supply chain**, with sanctions on **Russia**, a major rough diamond producer.
  - It further complicated trade and slowed down the global diamond trade.
- **Fluctuations in Prices:** Fluctuations in global diamond prices have caused uncertainty, with buyers **hesitant** to purchase rough diamonds in anticipation of **further price drops**.
- **Preferences to Lab-Grown Diamonds:** Consumer preferences are shifting toward **lab-grown diamonds**, which are more **affordable, ethical, and sustainable**. It is also impacting the

demand for **natural diamonds**.

- Lab grown diamonds are **man made diamonds** that are **chemically and optically identical** to natural mined diamonds.
- **Rising Operational Costs:** Rising **operational costs** (high labour, energy, and materials cost) and **reduced profit margins** in the global diamond trade, have made it difficult for many polishing units to remain **viable**.
  - It has led to shop closures and layoffs, especially in Surat.
- **Tighter Credit Conditions:** The diamond industry is heavily dependent on **financing**, but tighter credit conditions like **higher interest rates** and **reduced lending** from banks have made it difficult for companies to purchase rough diamonds, stalling production further.
- **Regulatory Issues:** India's **high corporate tax regime** on foreign suppliers of rough diamonds has led to more rough diamonds being **re-exported from UAE**, rather than India thus weakening India's **Special Notified Zones (SNZs)** in Mumbai and Surat.
  - UAE imports rough diamonds from **Botswana, Angola, South Africa, Russia** and re-exports these to India.
  - As a result, **UAE's share** in India's rough diamond imports has **surged**, from **36.3% in FY 2020 to 64.5%** in the **first quarter of FY 2024**, while **Belgium's share fell from 37.9% to 17.6%** during the same period.
    - UAE enjoys **zero tariff on cut and polished diamonds** exported to India under the **India-UAE Comprehensive Economic Partnership Agreement (CEPA)**.
- **Complex Customs Procedures:** A significant portion of cut and polished diamonds exported from India are being **returned due to quality issues**, overstocking by buyers etc.
  - Handling these returns is **costly and time-consuming** due to **complex customs procedures**, putting further strain on exporters.

## What can be Done to Address the Crisis in India's Diamond Industry?

- **Extend Export Credit Terms:** The **Reserve Bank of India (RBI)** could extend the export credit period for cut and polished diamond exporters from **6 to 12 months**, as buyers demand longer credit terms.
  - The **export credit period** refers to the duration for which credit is extended to exporters to finance their export operations.
- **Exempt Foreign Diamond Sellers from Corporate Tax:** GTRI suggests exempting foreign sellers of rough diamonds from corporate tax in India, as the current tax structure pushes sellers to **re-routing** it through the UAE.
- **Regulate the Lab-Grown Diamond Industry:** The rising demand for **lab-grown diamonds** requires **regulation** to ensure a fair and sustainable market for natural diamonds.
- **Reconsider Zero Tariff Import from Dubai:** The **zero tariff** on cut and polished diamonds imported from UAE under the India-UAE trade pact needs to be reconsidered to protect the domestic diamond industry.
- **Shift towards Organised Players:** Large retailers and organised players can offer a wider variety of designs and products and help in expanding India's gems market both domestically and internationally.

### **Drishti Mains Question:**

Examine the importance of the Gems and Jewellery Industry for India's economy. Also, analyse the key challenges it is facing in recent times.

## **UPSC Civil Services Examination, Previous Year Question (PYQ)**

### **Prelims**

**Q.Which one of the following foreign travellers elaborately discussed about diamonds and diamond mines of India? (2018)**

(a) Francois Bernier

(b) Jean-Baptiste Tavernier

(c) Jean de Thevenot

(d) Abbe Barthelemy Carre

**Ans: (b)**

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