



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.

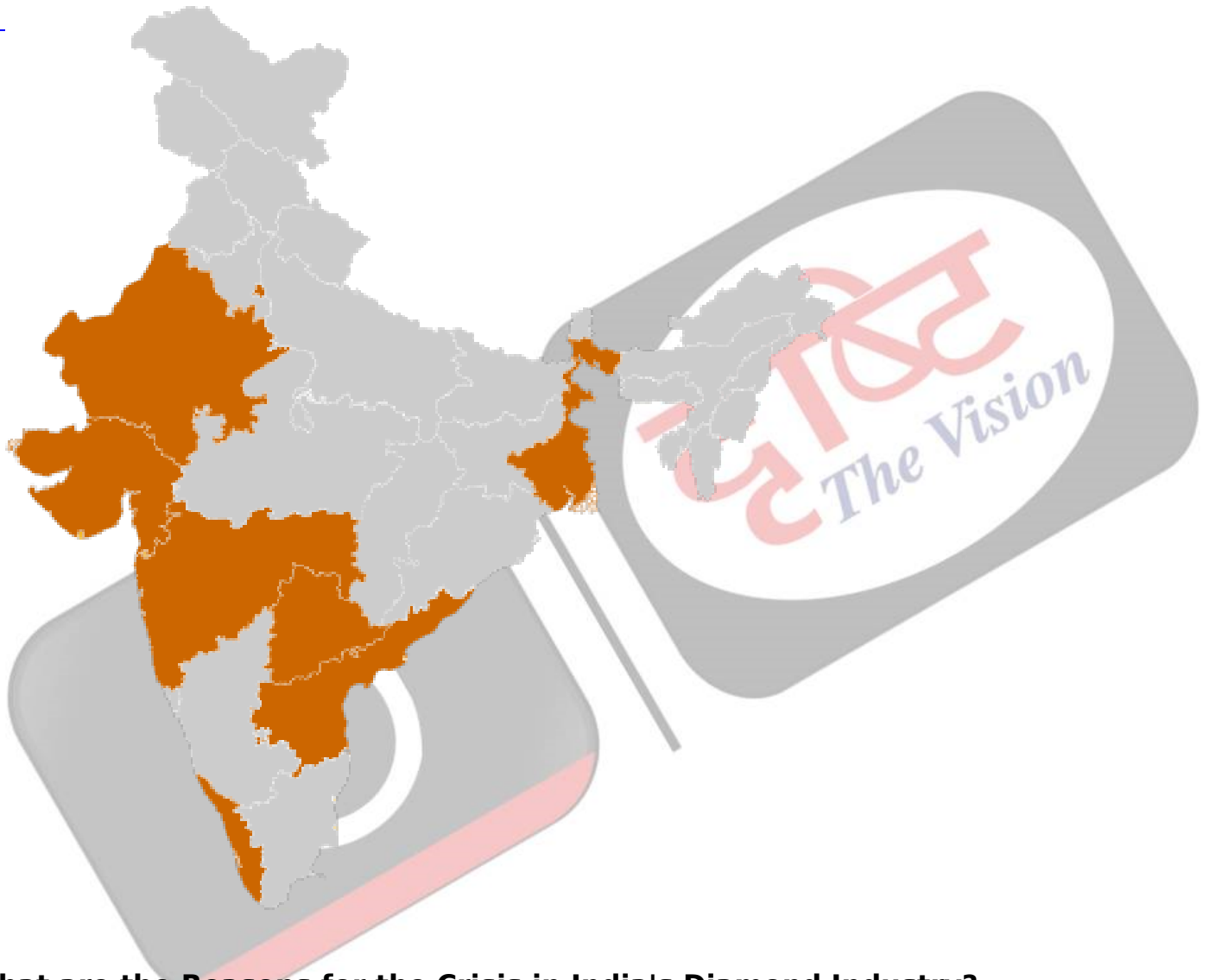
What is the Importance of Gems and Jewellery Industry for India?

- **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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