Indian Diamond Industry – Problems and Prospects

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PREFACE

Women are main consumers of diamond. However, they are unable to understand the right source of buying diamond and the right kind of diamond to be purchased. The flaws in a diamond cannot be seen with the naked eye. Gold is the preferable metal for investment. People do not consider diamonds as an investment. This book will show that diamonds are a good investment. It will also be a guide to the consumers in making a right choice of diamond. I am grateful to Dr. R.R. Khan for being my guide and helping me in completing my research work on diamond trade of India.
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1. Introduction

Trade is the transfer of ownership of goods and services from one person or entity to another by getting something in exchange from the buyer.

In prehistoric times, trade was in crude form with goods being exchanged for goods. This was known as barter exchange. Barter exchange suffered from a number of drawbacks. Some of these drawbacks were double coincidence of wants, indivisibility of certain goods, absence of common measure of value and difficulty in storage of wealth. Money in the form of precious stones and metals were initially used as a medium of exchange to solve these problems. Later, the evolution of metallic money gave boost to trade and commerce within as well outside the frontiers of nations.

(A) Trade History of India

India is looked upon as a country with immense resources available through its length and breadth. India was famed for her fabulous wealth ever since the ancient times till the establishment of the British Empire. Indian trade history reflects that despite the frequent political upheavals during the 12th to the 16th centuries, the country was still prosperous. The political and economic policies followed by the Muslim rulers propagated the growth of towns in various parts of the country. These towns grew into trade and industrial centres, which in turn led to the general prosperity in the nation. From the 16th to the 18th centuries, covering the two hundred years of Mughal rule, Indian urbanization saw further growth.

Descriptions of the wide variety of excellent goods sold in the Indian markets of those days are found in the records of foreign travellers. India was well known for its textiles, one of the chief items of export. Trade history of India also shows that hardwood furniture, embellished with inlay work, was a very popular item for export. Although, the expensive carvings and inlays were inspired by the ornate Mughal style, the furniture was modelled on the European design. Carpets were used both in ancient and medieval India. But the skill of carpet weaving touched new heights only during the Mughal era in the 16th century. A larger variety of ornamental work in cut stones, ivory, pearl and tortoise shells were produced in South India. Pearl fishing was a major industry here. Indian arts and crafts patronized by Indian rulers, were
unmatched for their beauty and skill and were very popular in the European countries.

History of Indian trade has extensive accounts about domestic trade in medieval India by the foreign travellers. With Delhi as a major trade centre, well-maintained roads linking various parts of the country, facilitated domestic trade on large scale. River routes also promoted internal trade between different parts of the country. Different communities were known to dominate trade in various parts of the country. India’s exports were reported to be far more than her imports during this period, both in the number of items as well as in volume. Arab traders shipped Indian goods to European countries through the Red Sea and the Mediterranean ports. Foreign trade was in the hands of both local and foreign merchants, as revealed by the Indian trade history. With huge earnings from her exports of various commodities, the state coffers were amply stocked with gold and silver.

However, the dramatic change in the political conditions in India during the 18th century brought about a drastic change in the situation. This period was marked by decline of the Mughal Power and the rise of the British power which dealt a fatal blow to the prosperity of the country. The British imposed heavy duties on both imports and exports in order to disrupt the foreign trade relations of India with the other countries.

By the time India gained Independence from the British in 1947, the economy was completely dependent on foreign sources for the supply of its most of the requirements. There were hardly any manufacturing facilities to suffice the needs of the growing Indian population. The past couple of decades in the history of Indian Trade have seen the country struggle to create manufacturing capacities across the board to be self-sufficient. The government has been focusing on the broad-based developments to move the economy from an underdeveloped status to being a developed nation.

India today stands at a over a trillion economy. Darjeeling tea, Indian khadi, cotton, Bombay Duck, Kashmiri carpets, Sutti diamonds, Indian spices and dry fruit are just a few of the famous gifts India has given to the world. The economic levels have improved in the urban and semi-urban areas. Literacy is penetrating deep in to even the far reach areas, thus creating awareness and to higher consumption patterns for all kinds of goods across all sections.
of the society. Promoting the availability of goods from different parts of the world has seen a rise in more trade with other countries.

Indian trade history is remarkable. Indian trade has benefited India and so has the world.

(B) Diamond Trade of India

The significance of the gems and Jewellery industry in the Indian economic scenario is a development of the last three or four decades. In 1960-61, the export turnover of the Gems and Jewellery industry constituted just 0.2% of the total exports from India which rose to 16.6% in the year 2000-2001 and marginally fell to 14.9% of total exports in the year 2010-2011.¹ The Gems and Jewellery sector, today, is one of the leading export oriented industries in India recording an export turnover of around ` 875 bn. during 2010-2011 and contributing 15 per cent of total exports, making it a significant foreign exchange earner for the country.²

The gems and jewellery industry occupies an important position in the Indian Economy. It is a leading foreign exchange earner and also one of the fastest growing industries in the country. The two major segments of the sector in India are gold jewellery and diamonds. Gold jewellers form around 80 per cent of the Indian jewellery market, with the balance comprising fabricated studded jewellery that includes diamond studded as well as gemstone studded jewellery. A predominant portion of gold jewellery manufactured in India is consumed in the domestic market. In diamonds, however, a major portion of rough, uncut diamonds processed in India is exported, either in the form of polished diamonds or finished diamond jewellery. Besides being the largest consumer of gold, India is also the leading diamond cutting nation in the world.

Diamonds have been parts of the Indian civilization since its recorded history. Diamonds were discovered in India during the 4th century B.C., and India was one of the first countries to mine the gem. India's diamonds were prized for their size and beauty for hundreds of years. Some of India's most prized diamonds are known as the 'diamonds of Golconda' and the most famous Indian stones

¹ Compiled from the Annual Reports of the Gems and Jewellery Export Promotion Council (GJEPC).
² Compiled from the various issues of the Economic Survey of India, Government of India.
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include the Hope Diamond, the Koh-i-Noor Diamond, the Orlov Diamond, and the Sanc Diamond. The Darya-i-Nur (Sea of Light) diamond weighed 186 carats and was owned by the Nadir Shah of Persia after it was plundered from India. Some of the centres of diamond mining in India are Panna in Madhya Pradesh and Krishna valley, Anatpur and Cudapah in Andhra Pradesh. But most of these mines are defunct now.

Diamond cut and polished in India has global recognition and India has emerged as a largest diamond cutting centre in the world. India is the world's largest diamond processing (cutting and polishing) country with around 1 million processors treating over 57% of the world's rough diamonds by worth. Diamonds processed in India account for 57% share in terms of value, 80% in terms of cartage and 90% in volume, of the total world market. 94% of global workers involved in diamond industry are in India.\(^3\) Processing is done on rough diamonds in a complete range of sizes and qualities, including stones larger than 10 carats. In terms of carat, India's contribution in this sector is about 80% of the global market. The main diamond cutting and polishing centres in India are located at Mumbai, Surat, Ahmedabad, Bhavnagar and some small towns in Gujarat.

Indian diamond trade mainly consists of import of rough diamonds for the purpose of cutting and polishing. Nine out of ten diamonds are cut and polished in the world are processed in India. Diamond trade also includes export of cut and polished diamonds and diamond studded jewellery from India. Indian diamond industry is largely family owned. Earlier, it was scattered in cottage industry format but now it has emerged as a modern mechanised industry using highly advanced and automated technology. Almost 96% of the business in the sector is unorganised and family owned while the remaining 4% is in the organised sector. India is the first country to mine diamonds, cut and shape them and export them to other countries of the world. The cutting and polishing of diamonds and other precious stones is one of the oldest traditions of India.

In gems and jewellery sector, India seems to have earned a considerable reputation both in domestic as well as international markets for its skills and creativity. In the global diamonds market today, Indian diamonds account for 60 per cent share in terms of

\(^3\) Indian Brand Equity Foundation (IBEF) (2012), ‘Report on Gems and Jewellery’.
value, 80 per cent share in terms of carats and 95 percent in terms of volume. Indian manufacturers have the ability to produce, cut and polish diamonds of virtually every size. Diamonds have lion’s share in Indian Gems and Jewellery exports. Export of cut and polished diamonds constitute almost 80% of the gems and jewellery exports from India. India is considered to be one of world’s largest centres of cut and polished diamonds. Indian cut and polished diamonds account for 45 per cent of international diamond production.

India mainly exports cut and polished diamonds to USA, Japan, Hong Kong, Belgium, Thailand and Israel. The industry is mainly concentrated in Gujarat, Maharashtra, Rajasthan and Tamil Nadu. In the first decade of the 21st Century, in spite of general slowdown of developed economies at the world level, the export from gems and jewellery from India has grown double digit. Given a conducive and favourable business environment, the sector poised to grow at a greater pace, making a significant contribution to foreign exchange earnings and employment opportunities.

The diamond industry has undergone a metamorphosis change after globalisation. This metamorphosis and subsequent transformation in the industry warrants a detailed comprehension and analysis of diamond industry in India. This also entails review of government’s policy and regulations and their impact on the exports, imports and functioning of diamond industry. Diamond industry, although very lucrative, has its own share of problems and these problems need to be studied carefully in the context of present and potential growth of the industry.

2. Review of Literature on Nature and Progress of Diamond Trade of India

S. Clark McEvwen (2008) has twenty plus year career in the diamond industry. He points out that the diamond Industry is going through monumental changes. He has found that the number of processing units has decreased. The traditional guarding of the Industry is losing its grip over the once tightly controlled world supply of rough diamonds. Mines are getting into retailing and retailers are getting into mining. Internet is successfully competing

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with the traditional means of selling to the consumer. Canada has emerged as the third largest diamond producing country in the World. The Indian and Chinese markets are rapidly growing and predicted to rival that of the United States. He explained that it is a misconception that Laboratory Grown diamonds are something other than diamonds. He clarifies that the Laboratory Grown diamonds are physically, optically and chemically the same as Earth grown diamonds, having the same brilliance. This misconception should be done away with to augment the decreasing supply of rough diamonds.

Diamond cut and polished in India has global recognition and India has emerged as a largest diamond cutting centre in the world. India is the world’s largest diamond processing (cutting and polishing) country with around 1 million processors treating over 57% of the world’s rough diamonds by worth. Diamonds processed in India account for 57% share in terms of value, 80% in terms of caratage and 90% in volume, of the total world market. 94% of global workers involved in diamond industry are in India.5 Processing is done

on rough diamonds in a complete range of sizes and qualities, including stones larger than 10 carats. In terms of carat, India’s contribution in this sector is about 80% of the global market. The main diamond cutting and polishing centres in India are located at Mumbai, Surat, Ahmedabad, Bhavnagar and some small towns in Gujarat.

Ken Grassman (2008)6 points out that global polished diamond prices continued to surge during last few years. According to IDEX Online polished Diamond price Index, on a year-over-year basis overall diamond prices rose by just over 16 percent. All major size diamonds one carat and larger posted double digit priced increase for the same period. In the prior months, prices of diamonds two carats and under had been lagging. Half carat diamonds posted a 5% price increase year over year. Thus, it appears that diamond price inflation has finally reached virtually all diamond sizes across the board. Historically polished diamond prices have increased at a rate of 3 to

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5 Indian Brand Equity Foundation (IBEF) (2012), Report on Gems and Jewellery, GJEPC.
Introduction

4% annually. The writer identifies six key factors that have been driving diamond prices sharply higher over the past six months:

1. Solid demand from most markets except the US and Japan.
2. Rising costs throughout the diamond pipeline.
3. A weakening US Dollar – the international currency for the diamond market.
4. A global rise in the price of virtually all commodities which has spilled over into the diamond market.
5. Stock market volatility which caused some traders to move their wealth into diamonds precious metals and other assets that may hold their value until the financial market recover.
6. Some confusion over the actual trading prices of polished diamonds based on artificial volatility reflected in some diamond price lists in the industry.

The writer concluded that polished diamond prices are poised to rise at a record level. In spite of economic weakness in the US and demand weakness in Japan, most of the World’s economies are growing at a suitable pace. This offers an opportunity for Indian diamond trade.

Diamond industry is purely a raw material-oriented industry which is sourced internationally and thus, the growth and development of this industry depends purely on regular and adequate supply of raw materials. India’s major imports of rough diamonds are managed through a single channel distribution system, operated by Diamond Trading Company (DTC). DTC is a subsidiary company of DeBeers (mining review Africa, 2005). Besides this, diamond imports are currently routed through Antwerp (Belgium), which makes imports more costly. Considering this, the then Commerce Minister, Jairam Ramesh (2008)7 pointed out that India must buy rough and uncut diamonds directly from African countries, as these countries are diamond producing countries. He explained that the Africanization of the diamond processing industry is not a threat to India but a great opportunity which the Indian diamond traders must proactively embrace. He emphasized that this initiative was mainly started because the diamond cutting and polishing trade is employment intensive and provides livelihoods to over 10 lakhs

families in India. Currently, rough diamonds are sourced from Antwerp in Belgium. He pointed out that in the long run it is in India’s interest to establish direct relationship with supplier country cutting out all the middlemen. India should formulate a strategy of partnership with African countries to gain broader economic and technological co-operation.

This turn down reason has struck in the minds of some Indian diamond industry people. Therefore, in response to this, direct sourcing from Russia, Botswana, Namibia and South Africa etc. have started to begun. This move of direct sourcing of diamonds will help in cutting down the substantial cost that is incurred while purchasing diamonds from DTC, who makes huge profits by acting as an intermediary between the diamond mines and the Indian diamond market.

Miss Neelam Gordhandas Monga (1989)\(^8\), pointed out the problems and prospects of diamond export from India. She found that diamond cutting and polishing industry occupied an important place in the national economy both from the point of view of foreign exchange earnings and generation of employment. The sector contributed about 12\% of the exports of the country. She concluded that Mumbai and Surat are the hubs for diamond cutting and polishing but the industry had also spread to Navsari, Bhavnagar, Visangar, Palanpur and other cities in Gujarat. She found that since purchasing power in the hands of women had steadily increased, demand for diamonds all over the world is increasing. She also concluded that the Indian diamond industry rests on three fundamental factors:

1. Plenty of cheap labour is available in India which can be used for cutting and polishing rough diamonds.
2. Sharp business acumens of Indian trades also contributed strongly to the Indian diamond industry.
3. As the diamond industry is based on trust feeling of strong family ties and pattern of kinship is very important.

A study by CRISIL highlights the prospects of diamond industry in India in its report. According to a report by CRISIL

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India’s diamond industry is expected to remain stable on gems and jewellery exports. "The credit risk profiles of India's diamond and diamond jewellery players will remain stable over the medium term, on the back of steady demand expected in key markets, and improved prices of polished diamonds in future," CRISIL also states in the study covering 142 players that there is improvement in global demand, the prices of cut and polished diamonds rebounded in the second half of 2009-10 from weak levels in the second half of 2008-09 but “Demand from the US market, which accounts for more than half of India's gems and jewellery exports, will be steady, backed by a stable economy, and will result in moderate buoyancy in exports by Indian players over the medium term.” However, it cautioned that the prevailing crisis in Europe may affect exports.

Messinger Ruth W. (1992)\(^9\) undertook a study under the title “Diamond and Jewellery Industries Study” in which he has given the following eight recommendations for the development of diamond and jewellery industry:

1. Establish partnership with global buyers.
2. Create identity in the world market.
3. Emphasis on security of areas where such units are located.
4. Encouragement to market training programmes.
5. Promotion of exports.
6. Improving image through quality improvement.
7. Facilitate succession to prevent industry from ageing.
8. Promote new technology.

Purani Keyoor (2000)\(^10\) undertook a SWOT analysis of the diamond industry in Surat in his research report entitled “Gujarat Model of Entrepreneurial Innovation: A Study of Surat Diamond Industry”. He identified the following strength, weaknesses, opportunities and threats for diamond industry in India:

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1. **Strengths:** One million craftsmen’s skills, abundance of cheap and skilled labour, excellent marketing network spread across the world and supportive government policy.

2. **Weaknesses:** High domestic interest rates, small firms lacking technological/ export expertise, low productivity compared to labour in China, Thailand and Sri Lanka.


4. **Threats:** China, Sri Lanka and Thailand’s entry in small diamond segment, infrastructural bottlenecks, frequent changes in EXIM policies, irregular supply of gold.

According to Radhakrishna (2007), India has a reputation of having master craftsmen who have the skill that can be harnessed for cutting and polishing even the smallest pieces of diamond. Apart from this, industry is also blessed with the cheap labour as compared to other countries. Also, government support measures such as duty free import policy helps Indian diamond industry to grow very smoothly. While commenting on the weaknesses of the industry, he remarked that India has to import diamonds as there are no efforts being made for diamond exploration in India by the government. As the prices of imported diamonds keeps on climbing, Indian diamonds are considered expensive and therefore losing share in the major foreign markets. He further adds that as industry has to import its major raw materials, companies stock huge quantities of inventory that results in high inventory carrying cost, which further increases the prices of diamond jewellery in India.

He further pointed out that diamond discoveries have led to direct revenue growth for the host countries. However, the diamond exploration has languished in India. The government in power never made any serious efforts for exploring diamondiferous ore bodies due to lack of financial and organizational support. Even though there have been some significant discoveries of pipe rocks in India at Chattisgarh, Panna district, etc. but their diamondiferous character and economic grade have yet to be established. This is the reason; the Indian diamond industry has to rely upon the import of diamonds from other countries. Had diamonds been produced in India in large

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Introduction

3. Review of Literature on Challenges and Future Perspective for Diamond Industry:

Gupta (2010), in his work he highlights the impact of external environmental forces on cartel networks. Using a case research approach, which examines two leading business networks within one industry, over time, the results suggest that:

(a) Bargaining power of intermediaries increases with the advent of new and powerful actors;
(b) Process activities that cartels previously controlled are being outsourced to new actors sometimes based in developing countries;
(c) Other actors are acquiring resources once dominated by a cartel;
(d) External forces triggered by the illegal diamond trade, such as international regulatory constraints, no longer favor cartels like De Beers; and
(e) Over time, these and additional environment factors are forcing actors like De Beers who perform rigid process activities to become more flexible. For example, forces are moving cartels which relied previously on hand-picked intermediaries in highly controlled networks to market their products to adopt a flexible market-focused expansion of operations in retail contexts.

A research paper by Patodi Avi, Joshi Nishant and Sharma R.K. (2012)\textsuperscript{13} concluded that even though the basic empirical results show that the diamond export industry is evenly poised and growing fairly, with the regression equation if a forecasting using ARIMA technique is done, it is found that the CAGR for the industry appears

to be robust at 6 percent. They have raised a concern that the Indian diamond market is not on firm grounds. The bottom of the markets is deep and with fluctuations in USD the markets can take a complete U-turn. They have also predicted that the prevailing business environment in specific to diamond export industry is extremely competitive. The Industry needs to gear up to new competitors in form of China and Thailand. It is important that we develop the more gems and jewellery training institutes in the country. Our SEZ infrastructure specially dedicated to gems and jewellery sector has still not seen the light of the day which appears to be a big issue. In a nut shell the future of diamond exports is rough and our supremacy may soon be challenged.

4. Challenges for Indian Diamond Industry

It is said that higher you are more are the challenges. It is certainly true in the case of Indian diamond industry. There are several factors, both local as well as global, which pose a challenge to Indian diamond industry. Some of these factors are:

1. Uncertainty in Supply of Raw Material: The diamond pipeline has been witnessing a change since the early years of this decade. De Beers, owned by Anglo American Pls (AA), has forecast that it will produce diamonds in line with 27.9 million carats in 2013, a 14 per cent decline from 2011 and 43 per cent decline pre-crisis in 2008. Diamond Trading Company (DTC), the main distribution arm of the De Beers, is the main supplier of rough diamonds to Indian diamonds industry. A cut in the supply of De Beers will have direct impact on Indian diamond industry and its ability to process and export rough diamonds.

Considering this the Indian diamond industry has started searching for new suppliers. The Russian state-owned diamond-giant Alrosa has struck a deal with three major Indian diamond processors. Diamond India, Rosy Blue, and Ratilal Becharlal & Sons have announced a US$ 490 million deal with Alrosa to supply rough diamonds over the next 3 years. Under the deal, the mine will directly supply raw material to the local diamond companies, who till recently had to import raw material from Belgium and Israel. This
agreement will lead to cost savings of at least 3-4% for the companies.14

2. Unorganised Market: The Indian gems and jewellery market is highly fragmented and dominated by family owned business houses. However, the trend is set to change in near future with the branded jewellery market growing at an expected CAGR of more than 41% over the next four years.15 According to market reports, with its consumption pegged at nearly 20%, India remains world’s largest gold consumer and this share is expected to grow further. Going ahead, the organized jewellery sector is forecast to account for a significant share in the country’s total jewellery market.

Additionally, growing importance of India in global gems and jewellery market has opened a lot of opportunities for exports. The country is fast becoming a major export destination of gems and jewellery to various developed and developing countries, including the US, the UAE, Hong Kong and Belgium. Despite recession, the Indian gems and jewellery exports sustained the positive momentum.

According to analysts the industry needs to take initiatives like setting up design centres with the aim to train their employees to compete in the international markets. Additionally, the Indian gems and jewellery industry will have to set standards and certification.

3. Rising Gold Prices and Expected Rise in Diamond Prices and Falling International Demand: Demand for loose diamonds and diamond jewellery in the United States and Europe has been affected by economic difficulties, expressed in a growing foreign debt and high unemployment rates, which reduced consumer spending - particularly of luxury products - in those countries. During the last decade itself, gold prices have risen almost five-fold. This has affected the overall cost of jewellery for the end consumer. It was expected that the rising gold and diamond prices would deter many potential buyers from purchasing gold and diamond jewellery, but in practice the season of holidays, weddings and festivals brought increasing demand and a large volume of sales of luxury jewellery in new emerging markets of India and China. Thus, the domestic markets and emerging markets in the UAE, Singapore and Japan are expected to give new life to the Indian diamond industry. The

14 Indian Economic and Business News Bulletin (2010), From the Commercial Wing of Indian Embassy in Israel, March.
reasons being booming economics of India and China, accompanied by a steady rise in per-capita jewellery consumption. The increased demand for diamond jewellery in China and India are influenced by:

- Rising wages, which are causing a steady growth in the size of the well-to-do middle class;
- Government policies that encourage consumption.

India and China import billions of dollars of gold a year - 49% of the overall worldwide consumption of gold, which in 2011 was about 4,067 tons in volume and 205.5 billion dollars in value, and 55% of the consumption of gold for jewellery. India remained the world's largest consumer of gold - 933.4 tons in 2011 (of which 500 tons were for gold jewellery), a remarkable figure considering the sensitivity of gold prices and the weakening of the rupee compared with the dollar in the second half of the year. The demand in China, the world's second largest consumer of gold (769.8 tons), increased this year by 20%. In the second half of 2011, China became the largest jewellery market in the world.

4. **Competition from China:** China is rapidly gaining ground in the diamond trade, unsettling many Indian diamond traders. The Chinese government has struck multi-billion dollar deals with various African countries, to build their infrastructure in return for resources including rough diamonds. With growing domestic demand, China is building its diamond cutting and polishing infrastructure. In exchange for medicines, oils, industrial metals and delivery of infrastructure projects, China is importing rough diamonds from Angola, the Democratic Republic of Congo and other African countries. All these initiatives on the part of China are posing threat to Indian diamond market.

The Indian government is holding talks with diamond producing states around the world to secure supplies of rough diamonds. In this regard, the Indian government is talking to Russia, Canada, Zimbabwe and South Africa for rough diamond supplies and is keen to ink long term contracts for assured supplies. India is the world's biggest diamond manufacturing hub and the Indian government recently led a delegation to South Africa and Russia in a bid to secure a supply of roughs.

Russian company Alrosa has signed long term contracts with five top diamond companies in the country.

Narendra Modi, the Chief Minister of Gujarat, has advised diamonds traders in Gujarat to look beyond processing diamonds. He
said India’s share of the international jewellery market stood at some US$ 491 million, though it had a potential to cross US$ 909 million.

India is also comfortably placed against its competitors in terms of cost of production. India boasts of one of the lowest per carat diamond cutting and polishing costs (at around US$ 10) thereby leading to comparatively low cost jewellery, and hence amplifying the overall consumption. Additionally, growing importance of India in the global gems and jewellery market has opened a lot of opportunities for exports. The country is rapidly becoming a major exporter of gems and jewellery to various developed and developing countries, including the US, the UAE, Hong Kong and Belgium. The Indian gems and jewellery exports sustained its positive momentum even in the times of recession.

Currently the Indian gems and jewellery market remains highly fragmented, but is rapidly transforming into an organized sector. Additionally, apart from diamond jewellery, gold consumption is also on a rise and India is expected to capture a dominant share in global gold consumption in 2013.

Going ahead, the organized jewellery sector is expected to account for a significant share in country's total jewellery market.