

DIAMOND SECTOR

Posted at: 27/09/2024

Context:

The think tank Global Trade Research Initiative (GTRI) noted India's diamond sector is facing a severe crisis as both imports and exports have sharply declined in the past three years, which has triggered defaults, factory closures, and widespread job losses.

Background:

1. The Indian diamond industry consists of over 7,000 companies involved in various activities such as cutting, polishing, and exporting diamonds.
2. Most of these companies are concentrated in Surat, Gujarat, and Mumbai, Maharashtra. The majority of these firms are SMEs, with many family-owned businesses dominating the sector. The diamond industry in India provides direct employment to about 1.3 million workers.

Diamond:

1. Diamonds are valuable gems, shaped deep inside the Earth's crust over tens of millions of years, maintaining both cultural and economic importance.
2. It is the hardest known natural substance. It is also chemically resistant and has the highest thermal conductivity of any natural material.
3. The top natural diamond producers are Russia, Botswana, Canada, Australia, South Africa, and Congo (Zaire).
4. In India, the South Indian Tract region comprises parts of Anantapur, Kadapa, Guntur, Krishna, Mahabubnagar, and Kurnool districts of Andhra Pradesh, the Central Indian Tract of Madhya Pradesh - Panna Belt, and the Surat, also known as the 'Diamond City' of Gujarat hosts significant diamond reserves and extraction activities.

Current Status of Crisis in India's Diamond Industry:

1. The diamond imports and exports fell sharply as rough diamond imports fell by 24.5%, from USD 18.5 billion in FY 2021-22 to USD 14 billion in FY 2023-24. The 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.
2. There is a wide gap between net imports of rough diamonds and net exports of cut and polished diamonds, from USD 1.6 billion in FY 2022 to USD 4.4 billion in FY 2024.
3. The percentage of unsold diamonds returned to India rose from 35% to 45.6% during the period from FY 2022 to FY 2024.
4. India techniques over 90% of the diamonds utilized in jewellery globally. Indian artisans skilfully transform tough stones into fantastic gems that beautify hands, necks, and ears throughout the world.

Reasons for the Crisis in India's Diamond Industry:

1. There is a sharp drop in demand for polished diamonds 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.
2. The global diamond supply chain has been disrupted due to the Russia-Ukraine conflict with sanctions on Russia, a major rough diamond producer.
3. The fluctuations in global diamond prices have caused uncertainty, with buyers hesitant to purchase rough diamonds in anticipation of further price drops.
4. There is a shift in consumer preferences toward lab-grown diamonds, which are more affordable, ethical, and sustainable which is also impacting the demand for natural diamonds.
5. The increasing rising operational costs such as 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.
6. The tighter credit conditions like higher interest rates and reduced lending from banks to the diamonds have made it difficult for companies to purchase rough diamonds and are stalling diamond production further.
7. The high corporate tax regime in India imposed 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.
8. There is a significant portion of cut and polished diamonds exported from India are being returned due to quality issues, overstocking by buyers, etc which is costly and time-consuming due to complex customs procedures, putting further strain on exporters.

