PROBLEMS OF INDIAN JEWELLERY INDUSTRY

S Madhavi*1, Dr T Rama Devi2

1Research Scholar, Acharya Nagarjuna University, Guntur (A.P), India.
2Reader, SDMSM, Kalasala, Vijayawada (A.P), India.

ABSTRACT

The gems and jewellery industry is crucial to the Indian economy given its role in the large-scale employment generation, foreign exchange earnings through exports, and value addition. The Indian gems and jewellery industry is fragmented, with local players constituting about 80 percent of the overall market. The variances in consumer preferences in designs, quality, and material across different regions have historically presented a challenge for national and organized players to create design-led differentiation. The most significant aspect contributing towards the growth of this sector is India’s favorable trade policies. The purchasing power and disposable incomes of the Indian consumer have considerably increased and it has created a niche for leading branded jewellery in the last decade, resulting in phenomenal growth in this sector. The objective of this paper is to encapsulate the issues/concerns for entrepreneurs while doing business in the Gems & Jewellery Sector.

Keywords: Jewellery, Gems, Purchasing Power, Imports, Exports.

INTRODUCTION

Jewellery sector is an integral part of the nation’s economy with its huge potential. In India, the jewellery industry has been growing at a good pace and it accounted for 14% of India’s total merchandise exports in 2011-2012. India is also world’s largest diamond processing (cutting and polishing) country with an 80 per cent share in world market. The most significant aspect contributing towards the growth of this sector is India’s favorable trade policies. The purchasing power and disposable incomes of the Indian consumer have considerably increased and it has created a niche for leading branded jewellery in the last decade, resulting in phenomenal growth in this sector. The products in the sector can be categorized as gemstones, jewellery and pearls, which can be further segmented into diamonds, coloured stones (precious, semiprecious and synthetic), studded jewellery, costume jewellery, gold and silver. The major factor taken into consideration while seeking information was the inclusion of all these products.

The gems and jewellery industry is crucial to the Indian economy given its role in large-scale employment generation, foreign exchange earnings through exports, and value addition. The industry provides direct employment to roughly 2.5 million people and has the potential to generate employment of 0.7–1.5 million over the next five years. This is comparable to the 2.1 million employments provided by IT services and is 2.5 times that provided by basic iron
and steel manufacturing and automotive manufacturing. In 2012–2013, the industry drove jewellery exports to the tune of INR 227,000 Cr, outperforming textiles and apparel exports by 25%. The industry also drove value addition of more than INR 99,000 Cr, which is comparable to several large industries such as apparel manufacturing. The demand in India can be segmented into consumption and investment. Unlike most other countries, investment demand for gold is important in India and accounts for about 45 percent of total market demand. Around 57 percent of the investment demand comes from bars and coins, while the rest comes from jewellery. The high investment demand is driven by a lack of alternative financial institutions for a large section of society, a perceived capacity to hedge against inflation, ability to invest smaller value in gold, high returns in gold over the past 12 years and ease of investing unaccounted money in gold. Also, while the volume demand for gold as jewellery has remained more or less constant over 2005 to 2013, the volume demand for gold bars and coins have grown at a CAGR of around 13 percent in the same period. From a supply side, the value chain consists of imports, mining, refining, trading, manufacturing, and retailing. This includes a mix of players catering to both consumption and investment demand.

The Indian gems and jewellery industry is fragmented, with local players constituting about 80 percent of the overall market. The variances in consumer preferences in designs, quality, and material across different regions have historically presented a challenge for national and organized players to create design-led differentiation. The share of organized players in the industry is growing, specifically that of regional players. However, there is a risk of reversal in this trend due to increasing regulatory restrictions on gold imports and the price differential between the official and unofficial supply of gold in the market. The supply side is also characterized by several local and independent stores in rural areas that play the role of financing entity, providing customers an investment option and lending money against gold.

The industry faces several challenges impacting consumption and the investment demand side of the market. While challenges in talent and skill development, research and technology adoption, and limited financing options are core to players catering to the consumption demand for jewellery, an increasing investment demand with limited supply infrastructure affects the investment side of the market. High import dependence and regulatory curbs impact both consumption and investment demand of the market.

- **High import dependence and limited recycling.** There is very little domestic production of gold, which has resulted in a very high dependence on imports. This makes the industry susceptible to any regulations that constrain gold supply. In addition, the supply of recycled gold from the domestic market is limited.

- **Over regulated consumption industry and under-developed investment industry.** In terms of regulatory policy, there is a lack of differentiation between investment demand and consumption demand. As a result, while imports have surged primarily to feed investment demand, regulations have also constrained consumption demand. There is no clear policy on the investment demand of gold.

- **Large investment demand and associated supply infrastructure.** There is a substantial investment demand in both jewelry and bars and coins form. This is due to the great
attractiveness of gold as an investment option, the limitations of alternate investment options, and the inadequacies of financial products backed by gold. However, bars and coins in particular have limited value addition and thus make a limited contribution to industry growth. Further, the investment demand adds to the import burden, leading to regulatory actions that impact the industry. There are a number of jewellers that cater primarily to investment demand, especially in rural and semi-urban areas.

**Perception of opaqueness.** The industry is fragmented with MSME-sector dominance. Over the last decade, there has been a considerable increase in share of organized sector and corresponding transparency. However, there is still a perception of opaqueness, particularly due to the fragmented nature of the industry. As we have seen over last five years with share of national and regional chains, increasing from 3 to 5 percent and 7 to 17 percent respectively, this perception is improving. We expect this perception to further improve in the long run.

**Limited financing options.** The industry faces difficulties in availing financing options. Further, the unavailability of Gold (Metal) Loans has increased the cost of financing for domestic jewellers. Traditional financing is costly due to high input costs.

**Risk of talent shortage.** The industry’s on-the-job training model leads to longer training time and creates gaps in availability of industry best practices and standardization, mainly for the fragmented part of the industry. This is coupled with gaps in infrastructure, lower demand for institution-trained workers in the fragmented part of the industry, and low attractiveness of the industry to the younger generation of employees.

**Limited research and technology adoption.** Innovation is critical for success in the export market and for growing the domestic segment. This requires the use of modern design and the latest technology. While the industry is adept at traditional designs, there is a lack of design-led innovations.

**PROBLEMS OF INDIAN JEWELLERY INDUSTRY**

**Dependence on Imports**

India largely depends on imports of raw materials for the 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 jewelry has a special place in this industry. In India 90 per cent of raw materials are imported and its supply is limited. The raw material is processed and manufactured saleable commodity for sale in the 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 the biggest consumer of silver in the world, according to the 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 semiprecious stones are imported from Belgium, the UK and Hong Kong etc.

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 the 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.

**Competitive 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.

**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.

**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.

**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.

**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.
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.

**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.

**CONCLUSION**

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. 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.

**REFERENCES**

