

PERSPECTIVE PLANNING FOR THE DEVELOPMENT OF GOLD ORNAMENT MARKET

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ABSTRACT

In this article, the problems which are being faced by the gold ornament industry have been identified and highlighted. Further, the technical gaps in the gold ornament sector, which are working as an obstacle for its development and hindering its exports from India, is also dealt with. There is lot of scope and potential in varying degrees in the international market for gold ornament products in India. So, this goal may only be obtained if the problems and constraints which are being faced by the gold ornament sector be done away with. Therefore, the present chapter analyses and highlights the various problems and prospects of the gold ornament sector particularly with reference to the exports from India to the rest of the world.

Keywords: GCA, WGC, BBA, Gold Ornament, International Market.

Introduction

Problems of the Gold Ornament Sector

The gold ornament sector has been studied with regard to various aspects. Variables such as (increased employment) opportunities, introduction of modern marketing techniques, cost, effectiveness, growth trends in value addition etc. are dealt with in detail. With the overall analysis of the gold ornament sector, it may be concluded that the sector is almost based on import of raw material. As the quantity of raw material is increasing, the exports are showing a positive trend and have been achieving new heights every year. However, it should be noted that there are also drawbacks. There are reasons to believe why gold ornament exporters have certain constraints with them. Some problems related to production, consumption and marketing being faced by the manufacturers and exporters of the gold ornament products may be generic in nature while others may be specific to particular sub-sector. The problems may also be different for different business organisations and for different size of business organisation. There are many problems and difficulties in the field of production, consumption and exports, but most important ones of these are listed below:

- **Dependence on Imports**

India largely depends on imports of raw materials for the gold ornament 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 under goes periodic modifications. However, the Indian government withdrew the Gold Control Act (GCA), which was in force for many years. Raw materials for gold ornament has special place in this industry. In India 90 percent of raw materials is imported and its supply is limited. The raw material is processed and

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manufactured saleable commodity to sale in global market. Among these raw materials rough diamonds account for more than 50 percent of imports. These rough diamonds are cut, polished and exported. According to the 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 biggest consumer of silver in the world, according to Bombay Bullion Association (BBA).

India imports tough 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 stone are imported from Belgium, the UK and Hong Kong etc. Europe has become the largest importing destination of raw material for Indian gold ornament industry. 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 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 DIC, 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. We are also very much under the influence of DTC. Not only this, DTC always tries to affect the price of the finished commodities sold in the western countries. It also controls diamonds mines interest and has strong marketing influence on the diamond market. DTC has shown a tendency to supply inferior raw materials to India, while the quality of raw materials offered to Israel gives a better yield and these diamonds command better prices in the international market.

A closer look at the import of raw material by Indian gold ornament industry gives the cause of worry. The industry being dependent almost entirely on imported raw material, it is automatic that higher exports should lead to higher import. But the factor which causes worry is that excess imported raw material when exported gives less earnings in foreign exchange.

- **Competition Threats**

The overall volume of India's gold ornament 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 cannot maintain his superior position in the world market. We are not adopting the scientific approach. On the other hand, other countries have developed the gold ornament 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, 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 gold ornament 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 gold ornament industry.

On the other hand, Israel, one of the three biggest countries in diamond processing, is also emerging as a world-coloured gemstones centre. Although, Israel mines no diamonds, yet it is one of the three biggest in diamonds, along with India and Belgium. Similarly, Belgium operates a scientific and research section too for technological advancement. There is even a social fund for the welfare of the highly skilled diamonds workers. In this way, we can say that Indian gold ornament industry has less systematic and scientific approach and has competition with many countries.

In the field of gold jewellery and studded jeweller your main competitor is Italy. This is the sector in which we are having many advantages like efficient artisans, low-cost labour and demand of our goods in foreign countries, even though our achievements in the trade of these products are not too many.

- **Imbalance Growth**

The ornament sector comprises a wide range of products like cut and polished diamonds, gold ornament, 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 percent the total exports of ornament. On the other hand, very little attention is paid to exploit the export potential of other items of ornament.

- **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 gold 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 gold ornament industry, specifically small traders.

International marketing needs a changing fashion of gold ornament 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 gold ornament. Of course, we are having a vast area of traditional art and craft even in the field of gold ornament and ornaments made by our artisans which are liked by people of every country. But only artisans cannot fulfil the whole demand. A man is after all man, labour can be done to any extent but cannot do as much work as a machine does. The gold ornament of the latest designs cannot be produced in larger quantity or number due to less use of modern machines.

On the other hand, manufacturers according to the market demand manufacture specific type of gold ornament product. But as the fashion changes, demand of that type of product starts declining and eventually it finishes. This situation blocks the capital of manufacturer and the stock is collected. The manufacturer gives the stock to the broker for selling. The buyer reduces the cost of production to half in this situation: the sellers do not sell their product under the cost of product. Thus, we must be aware of this undisputed fact that in the international horizon, that fashion changes very fast.

- **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 gold ornament sector traditionalism is preferred in comparison to modernization. It is certainly appreciable in the case of design. But when we talk about tools and equipment's, 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 gold ornament. Proactive players in the Indian gold ornament industry are always on the lookout for better technology for their units. However, such technology is relatively low in Indian gold ornament industry, due to the small size and unorganised nature of majority of the players.

- **Labour**

- **Lack of Training Facilities:** Lacks of labourers are engaged in gold ornament 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 gold ornament 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 gold ornament industry are illiterate and they cannot acquire information about institutions and also cannot pay for them.
- **Existence of Casteism:** Existence of casteism is main drawback of gold ornament industry. For example Jaipur is the centre of manufacturing precious and semi precious stones and here different cuts are having importance in different processes of gem cutting. In the process of ghat making the Muslims are having an upper hand. Near about 90 per

cent labourers engaged in this process are Muslims. Local goldsmith does the work of traditional kundan meena jewellery. Specific castes have possession of particular works of processing. They support and encourage the persons of their own caste.

Any trainer belonging to the Muslim community accepts a non-Muslim trainee only in some exceptional cases. This acceptance is not given even for a very skilled person. Just contrary to this, an unskilled person from the Muslim community is accepted as a trainee without any hitch or enquiry about the zeal, aptitude or interest of the trainee. Near about the same approach is shown by the Gujrati trainers. They also do not prefer non- Gujaratis as trainee. Because of this negative approach of trainers, so many inefficient persons have entered in the occupation of polishing and cutting and on the other hand so many skilled persons possessing real aptitude for the work are kept out of this industry. In other words' it can be concluded that the reason for this problem is not that in this industry some castes are having the monopolistic rights but they give all incentives and facilities to their caste fellows to enter the trade and discourage and prevent other from doing so.

- **Lack of Permanent Work:** In gold ornament industries about 10 percent of the total persons start trade every year. And, before the establishment of the trade they withdraw from the trade. In the case of ghat-making, there is no organizational set-up in any way. Individual ghat-makers go from door to door for inviting the work. Generally, they do not have permanent place where they can be found except their houses. Due to the absence of any organizational set up, ghat-makers do not get a job for all the working days in a month. After finishing their work at one place they roam about in other localities in search of work.
- **Unsuitable Working and Payment Conditions:** India is continuously leading in the field of gold ornament sector. But the labourers are still living in a hopeless condition because unsuitable working conditions and absence of his requirements. If the labourer has no urgent work he must do work for more than twelve hours a day. On the other hand, in the situation where there is no work, the labourer is left less. This kind of working conditions discourage and demoralise the labourers. In the same way wages are not decided on a fixed basis. Also manufactures do not pay wages on time. The industry has no organizational set up and so no vacancy is published in newspapers or magazines.
- **Use of Child Labour:** Small boys, sometimes as young as 10 years old, work in hot sheds chiselling roughs which eventually get sold in the Jewellery shops. Their nimble fingers and sharp eyes enable them to cut these diamonds in remarkable shapes, but while they earn well for these skills many of them find their eyesight getting progressively weaker as they grow older.

• **Unemployment**

The Indian diamond industry is, essentially, a closed family-based sector where the labour force is not systematically organised. Most of the gold & diamond units are unregistered and, hence reliable data on their existence, operations, labour force used etc. is not readily available. The data available with the government pertains to the registered units only. It is, therefore, not possible to ascertain the precise number of people in the diamond industry who have been rendered jobless.

• **Financial Problems**

In gold ornament industry since the most of the stones dealt with are expensive, hence the sector require more finance for investment. Apart from buying and labour businessmen has to pay transaction, insurance interest, commission, excise and customs etc. Every trader requires working capital for day-to-day payments. A big businessman can easily make such payments but a small trader cannot. In general grants are supposed to be the best source of financial assistance but these too help only big exporters, which again is problem for emerging exporters as like big exporters they don't have good will, sweet will and acquaintance with the bankers. They have to look for guarantors so everybody can't enter into exports. So, in this field finance is the basic problem, which comes in the way of beginners on lower class exporters. Thus, they are highly squeezed by the big ones. Exports require financial assistance as payment for exports are normally credited after one year and six months, so assistance is required only for this short period but the small scale exporters have to manage on their own. For this sort of arrangement, they have to pay heavy rate of interest which again increases the cost of exports. Giving to aforesaid reason their goods are not able to stand in the world market and the goods, sent at consignment basis, are returned back with the note that high rates on goods remaining hanging whereas exporter keeps paying interest. It results in depletion of his own capital, tension on his nerves and on the top of it he remains dull during this waiting period, which results in double loss.

In recent times, the major problems faced by gold ornament exporters in sourcing their capital requirements are as follows:

- High interest rate being charged by the banks on export credit.
- Scarcity of dollar credit for sourcing of rough diamonds.
- Reduction in sanction on extension of credit limits to gold ornament exporters.
- Biased rating of gold ornament firms by credit rating agencies.

In this way timely availability of the finance at the main requirement. On the other hand, formalities of the financial organisation are so much that it is a highly time consuming process.

- **Procedural Hardships**

Government of India controls the trade and industries and formulates policies for export and import. Gold ornament trade, being mainly an export -oriented industry, is very much affected by its policies. As the trade has to import the raw material and export the manufactured goods again, so it has to abide by the prevailing Policies of the government which keep changing from time to time. These changes put exporter into a lot of troubles. Export and import involved a lengthy procedure. In reality the work involved is too much. The time and trouble involved in process of exports is a heavy burden on a exporter, particularly on a small exporter. For example, all the exporters, who are the members of the GJEPC, are supposed to file all the information regarding the exports like the number of pieces exported, details of returned items, value of goods exported and purchased etc. Exporters in general are facing a number of problems in bank transactions. In dealing with a bank also they are supposed to submit a number of documents and fulfil many formalities.

- **Pricing**

Products of gold ornament don't have fixed Prices. The units of the weight of stone used are 'carats' and 'cent' in gem industry and units of the weight of pearl used is 'gram' and 'chau'. Traders according their own will and on the basis of requirement of customer put the price of the product.

For instance, if in gold ornament sector any trader required four m.m. square emeralds, in this situation, the broker fulfils the requirement of the trader but puts the price very high due to urgent need. The buyer has to purchase the product at high price. This uncertainty is applied to the whole market. Small influenced traders suffer in this industry because manufacturing is done on small scale by such traders and they have to sell their products as they cannot keep it in stores for a long time, and big influenced traders buy from them at low prices as they have large consumption of products and direct link with foreign countries.

In the same way, customers are also the victims of that problem. Due to uncertainty of price of various products of gold ornament the sellers put the price according to living standard of customer and gestures. Actual problem arises when that customer sells the same product to any other trader and he is given a lesser price in comparison to what he has already given for. Thus, there is no criterion of the pricing determination in this trade. On the other hand, gold, prices has doubled over the past three years. Such a sharp rise is usually associated with risky investment assets as equities. The sizzling gold price is one of the reasons for drop in gold ornament sales.

- **Seizures**

In gold ornament industry of India seizure is a main problem for the traders. Interlink departments in the process of export can seize the stock. The seizure of such stock-in-trade products as jewellery, bullion and precious stones create great difficulties for assesses as it result in the cessation of their manufacturing operations, potentially resulting in the breakdown of their entire trade. The industry's products depend largely on sales and the seizure of stock-in-trade also lead to loss of sales for the industry and therefore, for the country. Most of the exporters are frustrated because of seizure made by different departments very frequently. Under the corresponding or interlinked sections in different acts the Revenue Intelligence, Customs, Foreign Exchange, Enforcement and even Sales Tax department have the authority to check the stocks and seize them for verification. They do exercise this authority on the assumption that all the exporters are indulged in malpractices.

It is very true that government officials act according to prescribed rules but practical pros and cons should also be kept in mind before any action or seizures. Associations of exporters never object to the practice but they are against the practice of Government officials harassing them for no concrete reasons. Exporters claim that even if the suspicion or discrepancy relates only to small part of the stock,

the entire stocks are taken away. Once the stocks are seized, they are seldom returned even after the expiry of many months and sometimes even years.

The seizures of stock-in-trade cause traders to default in their repayment commitments to suppliers, banks and other financial institutions. This deters suppliers from dealing with traders and the banks and financial institutions from extending credit facilities to them.

- **Low Level of Quality and Productivity**

The labour force in Indian gold ornament sector is less productive as compared with China, Thailand, The USA, the UK, Srilanka and Israel. This may be due to reasons like long hours of work, uneasy work environment and no friendly atmosphere is created. The workers therefore are not motivated to work so resulting in low productivity. On the other hand, the share of India in medium and large sized diamonds is comparatively less when compared with other countries because of less emphasis on quality. Therefore, to remain competitive in the world market Indian traders will have to improve the quality of their diamonds.

- **Transportation**

Transportation is the nerve knot of gold ornament industry of India. Traders in gold ornament industry fall victim to the problem of not being able to fulfil the demand of products. They also fill the absence of any professional organization or government counter, so that they may purchase raw material of gold ornament 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.

Accordingly, traders are concerned more about the problems of transportation. If a trader of Jaipur imports the raw material of gold ornament from any foreign country; then the parcel of imported raw material will come first to Mumbai or Delhi and then it will come to Jaipur. Imported parcel reach Mumbai or Delhi from any of the foreign countries within one day and from Delhi/Mumbai it comes to Jaipur within two days. In this way parcel do not reach at the right time. Thus, it is clear that transportation facilities are not proper.

- **Lack of Standardisation**

In India, jewellery consumption is primarily of gold. The bulk of the Indian jewellery buying is still rooted in tradition, and jewellery is sold in traditional designs. Gold jewellery is also bought as an investment. In the present system of selling gold jewellery in India the purity may or may not be standard and the buyer's loss-cheating on cartage and purity is wide spread. India is the larger exporter of diamonds in the world, but the diamonds are not standardized. The same size, colour and weight diamond may mean different things to traders around the world. The Diamond Trading Company (DTC) should take steps to ensure that the diamonds are standardized the same in size, colour and weight so that the dealers and clients are not cheated at any point of time.

- **Anti Social and National Activities**

For people jewellery is their secondary need and they purchase it only after the fulfilment of their basic needs. If any country or Part of the country is affected by terrorism then the people of such a country would not like to buy jewellery. They will think about their basic necessities and protection.

Anti social activities are on the rise especially in places like Mumbai. Security has become one of the major concerns for the gold ornament sector. A loss of packet of diamonds can cause a lot of loss of money from our pockets. In recent times there are a lot of robberies happening in broad daylight without even anyone noticing it. Therefore, there should be an increase in security facilities.

On the other hand, an example of the insecurity in international trade is the terroristic attack on the World Trade Centre (WTC) of America in year 2001. This type of terroristic activities has been resulting in a great loss to the trade of gold ornament in India. Similarly, Indo-Pak relation is also another problem to affect gold ornament trade in India.

Conclusion

The Indian gold ornament market is one of the largest in the world. The industry is characterised by highly unorganized trade, labour intensive operations, working capital and raw material intensiveness, price volatility of gold and export orientation. The gold ornament industry plays a key role in the Indian

economy, and commands a high percentage of the exports from the country. This industry is 100 per cent export oriented industry in every respect. The Indian gold ornament products are sold in the international market due to its unique artistry and finishing, but in the present scenario our various competitor countries like China PRP, Thailand and Israel are gradually replacing the traditional gold ornament products. Due efforts have been made in this direction and the liking for gold ornament products is continuously increasing in the global market.

Considering the country's competitive advantages and the prevailing trends in the global gold ornament industry highlighting shift towards emerging markets of India and China, the future holds bright for India. India plays a very significant role in global gold ornament 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 PRP, 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, gold ornament 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 gold ornament 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 Government of India has been working to develop the gold ornament sector in India through various policies. Over the years the Indian government has taken several measures to boost growth of the gold ornament industry:

Thus, it can be fairly and logically concluded that various policy initiatives have been taken from time to time to boost the gold ornament sector by government. While the focus is clearly on export promotion, the liberalised policy regime will help traders perform better in the domestic as well as global market.

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