India is one of the largest gold jewellery exporters in the world. In FY2015–2016, Indian gold jewellery shipments came to US$8.6bn, with around half delivered to India’s largest jewellery export destination, the UAE. The government has increasingly lent its support to the export industry over recent years, not least through the Special Economic Zones that have been set up around the country. Looking ahead, vocational opportunities in the gems and jewellery sector are set to grow noticeably, with local trade bodies targeting employment growth of 0.7mn–1.5mn by 2020, many of which will be in the import/export sector.

Jewellery exports and imports

The Indian gems and jewellery sector plays an important role in India’s export economy

Gems and jewellery exports cover a range of product segments, namely: cut and polished diamonds, gold jewellery, gold medallions, rough diamonds, gemstones, pearls, synthetic stones and fashion jewellery (Chart 19). Cut and polished diamonds account for the lion’s share of exports, with gold taking second spot.

The gems and jewellery export industry makes a big contribution to the country’s finances. Since 2004, it has earned over US$369bn (Rs19,024bn) of foreign exchange. And this is likely to increase by a compound annual growth rate of 5%–7% over the next 10 years. It also makes a sizeable contribution to employment. According to a 2013 report by consultants, AT Kearney, commissioned by the Federation of Indian Chambers of Commerce and Industry, the gems and jewellery industry employs over 2.5 million people, and has the potential of adding a further 0.7mn–1.5mn by 2020.

*Others includes pearls, synthetic stones, fashion jewellery and sales to foreign tourists.

Source: The Gems and Jewellery Export Promotion Council; World Gold Council.
India’s gold market: evolution and innovation

Exports

Gold jewellery exports from India

- 50% Plain gold jewellery
- 30% Diamond jewellery
- 20% Precious and semi-precious gem jewellery

The value of exports was $8.6bn in 2015-16, still some way off the 2012-13 peak of $13bn.

Exporting around the world

In 2015-16, gold jewellery was exported to nearly 90 countries and regions, including:

- USA
- UK
- UAE
- Hong Kong
- Singapore

Exporting to expatriates

India largely exports to countries with sizeable Indian populations, with 50% of exports going to the UAE.

The 80:20 rule

The rule required importers of refined gold to export 20% of their imports as gold jewellery, which led to a slump in imports and was disruptive to the market.
India is one of the largest jewellery exporters in the world
Indian jewellery exports have grown over the past decade to reach 160 countries. In FY2004–05, India exported gems and jewellery worth a total of US$15.6bn (Rs.618.3bn). This almost trebled over the following six years, peaking at US$43.2bn (Rs2,048.2bn) in FY2011–12. Exports dropped to around US$39.1bn in FY2012–13 due to sluggish demand from Western markets, for diamond jewellery in particular, but has been relatively stable since (Chart 20).

Plain jewellery accounts for the lion’s share of gold jewellery exports
In FY2015–16, gold jewellery was exported to nearly 90 countries and regions, including Hong Kong, the US, the UK and Singapore, although the UAE accounted for around 50% of the total. The value of exports was US$8.6bn in FY2015–16, still some way off the 2012–13 total of US$13bn.

Around 50% of gold jewellery exports are plain gold jewellery sets or chains. These are typically made in Mumbai, Kolkata and cities across southern India, and shipped to the UAE, Hong Kong and Singapore. Around 30% of gold jewellery exports are in the form of diamond jewellery manufactured in Mumbai and flown to the US, UAE and Hong Kong. Precious and semi-precious gem jewellery make up the remaining 20%, predominantly manufactured in west Indian states such as Rajasthan and Gujarat and exported to the UAE and UK. India largely exports to countries with sizeable Indian populations, such as the UAE, US, UK and Hong Kong.

Indian gold jewellery imports are small
Gold jewellery imports are modest compared to jewellery exports (Chart 21). Most of the jewellery imported is high-end (either branded or non-branded) or machine-made, especially chains. Machine-made jewellery usually comes from the Middle East or South East Asia. Virtually no jewellery imports are handmade; this is India’s area of expertise.

Note: p = provisional data.
Source: The Gem and Jewellery Export Promotion Council; World Gold Council

![Chart 20: Gems and jewellery exports doubled in ten years](chart)

![Chart 21: Indian gold jewellery exports dwarf gold jewellery imports](chart)
Developing India’s jewellery exports

Gems and Jewellery Export Promotion Council’s role in developing the market

The Gems and Jewellery Export Promotion Council (GJEPC) was set up by the Ministry of Commerce in 1966 to boost the country’s jewellery exports and help it gain prominence in international markets. The GJEPC is headquartered in Mumbai, with regional offices in Delhi, Kolkata, Chennai, Surat and Jaipur, and today represents more than 6,000 exporters. Gold jewellery exporters form the largest contingent of GJEPC membership, closely followed by diamond exporters (Chart 22).

GJEPC activities involve industry promotion through local as well as international trade shows, most notably the India International Jewellery Show (IIJS) and Vicenzaoro Dubai. As a pivotal body of the Indian gems and jewellery export sector, the GJEPC liaises with the government, providing industry representation. It is also involved in industry initiatives, including training, developing industry benchmarks and conducting research.

Special Economic Zones (SEZ) initiative to boost jewellery trade

India introduced the SEZ policy in April 2000 as an initiative designed to boost trade. The government allowed companies to set up units in SEZ to manufacture goods and provide services that help facilitate exports. The SEZ Act 2005 laid the regulatory framework for setting up and running SEZs. This was largely carried out to promote manufacturing and subcontracting of jewellery. Under the Act, these units enjoy a tax holiday of 15 years, and are exempt from customs duties and central excise duties on capital goods and raw material as well as consumables.

The Santacruz Electronics Export Processing Zone (SEEPZ) is one of the largest export zones in India. Many leading jewellery manufacturers are based there as it is one of the few SEZs to export not only gold jewellery but also silver and diamonds. Gold jewellery accounts for by far the largest share: 84% (US$1.8bn) of all jewellery exports from the zone are gold.

Table 8: Operational or approved SEZ in India

<table>
<thead>
<tr>
<th>Name of SEZ</th>
<th>Location</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santacruz Electronics Export Processing Zone (SEEPZ)</td>
<td>Mumbai</td>
<td>Maharashtra</td>
</tr>
<tr>
<td>Gitanjali Gems Ltd</td>
<td>Panvel</td>
<td>Maharashtra</td>
</tr>
<tr>
<td>Navi Mumbai SEZ</td>
<td>Navi Mumbai</td>
<td>Maharashtra</td>
</tr>
<tr>
<td>Gitanjali Gems Ltd</td>
<td>Nanded</td>
<td>Maharashtra</td>
</tr>
<tr>
<td>Gitanjali Gems Ltd</td>
<td>Aurangabad</td>
<td>Maharashtra</td>
</tr>
<tr>
<td>Gujarat Hira Bourse</td>
<td>Surat</td>
<td>Gujarat</td>
</tr>
<tr>
<td>Sitapura SEZ</td>
<td>Jaipur</td>
<td>Rajasthan</td>
</tr>
<tr>
<td>MP Audyogik Kendra Vikas Nigam Ltd</td>
<td>Indore</td>
<td>Madhya Pradesh</td>
</tr>
<tr>
<td>Chattisgarh Infrastructure Ltd</td>
<td>Raipur</td>
<td>Chattisgarh</td>
</tr>
<tr>
<td>Delhi State Industrial Information Development Corporation</td>
<td>Delhi</td>
<td>Delhi</td>
</tr>
<tr>
<td>Planetview Mercantile Company</td>
<td>Verna</td>
<td>Goa</td>
</tr>
<tr>
<td>Manikanchan SEZ</td>
<td>Kolkata</td>
<td>West Bengal</td>
</tr>
<tr>
<td>Hyderabad Gems SEZ</td>
<td>Hyderabad</td>
<td>Telangana</td>
</tr>
<tr>
<td>Goldsouk International Gems and Jewellery SEZ</td>
<td>Gurugram</td>
<td>Haryana</td>
</tr>
</tbody>
</table>

Source: Metals Focus; World Gold Council

*Others include Sales to foreign tourists and Not indicated.
Source: GJEPC

66 Ministry of Commerce and Industry.
Round tripping
In promoting gold exports the Indian government faces a challenge: to finely balance the interests of the domestic manufacturing sector with the need to control round tripping.

Round tripping is the act of exporting gold, be it jewellery, bars or coins, with the sole purpose of melting it down before re-importing it back to the original exporting country. The process results in a circular flow of gold between different countries, serving to inflate trade statistics. The levels involved can be significant and this is one reason why trade statistics should not be taken at face value (Chart 23).

The underlying motive behind round tripping varies. It can be to arbitrage between differences in tax rates or exploit loopholes. Or it can be to exploit differences in interest rates or exchange rates. In the case of India, round tripping is commonly used so firms can artificially boost their trading volumes in order to secure less expensive finance.

Round tripping has been a long-standing feature of the Indian market and is largely visible in the jewellery trade with the UAE, Hong Kong and Singapore. This can involve crude jewellery, which is close enough in form to be exported as jewellery, but crude enough so that making charges are negligible. After it arrives at its destination it is promptly melted down and shipped back to India in the form of bars, through official or unofficial channels.

**Chart 23: Estimated levels of round tripping, 2010-2015**

Gold is exported from India, often in the form of crude jewellery

At the destination, the gold is melted down into bars

...which are then exported back to India

Round tripping is used by firms to boost trading volumes and secure cheaper finance; one reason why trade statistics should not be taken at face value.
Value addition norms are employed to control round tripping

A measure often employed by the government to control round tripping is the use of value addition norms. Value addition is defined as the difference in value between the raw material input and the final output – i.e. the difference in value between a finished piece of jewellery and the raw materials used to manufacture it. Government-imposed norms (decided by the Ministry of Commerce and Industry) place a minimum level of value that the jeweller must add, thus making round tripping less profitable.

The government faces a balancing act in setting value addition norms at an appropriate level. If they are too high, round tripping is discouraged but jewellery exporters find it difficult to sell jewellery at competitive prices. Set them too low, and exports become more competitive but round tripping becomes much more attractive.

The authorities are very mindful of round tripping. The size of these flows, as shown in Chart 23 on the previous page, contributed to the decision to end the “80:20” system (details in Chapter 10). The increase in value addition norms announced as part of the new 2015–2020 foreign trade policy were also designed to curb this activity. In particular, the focus for deterring round tripping is squarely on items such as medallions and machine-made jewellery. These low mark-up items are not labour-intensive to produce and can be easily recycled at the point of destination. Although value addition norms on medallions were maintained at 1.5% under the new policy, the minimum value addition requirement for machine made jewellery was increased from 1.5% to 2%. The government needs to closely monitor these levels to avoid the unintended consequence of adversely impacting genuine gold jewellery exports.

Outlook

India’s jewellery exports have thrived over the past 10 years. Exports have been on an upward trajectory; bumpy, but upward nonetheless. The industry has made significant contributions to India’s foreign exchange earnings.

This sector has the potential to grow. India’s expertise in handmade jewellery gives it a unique opportunity. The intricate designs produced by its karigars – expert craftsmen – give it an edge over much of the global competition. If managed correctly, we believe exports could increase to US$40bn by 2020. This is an ambitious target, but one that could be achieved if industry bodies and government work together to formulate supportive policies.

Innovation, creativity, new ways of marketing and transparency in gold jewellery will be key to achieving this vision. The creation of jewellery parks, along with common facility centres with a focus on the revival of existing manufacturing centres, would be a positive step. A more active marketing strategy for Indian handcrafted jewellery would boost jewellery exports. This could be supported by Gold Heritage Tourism, which could become a key driver of India’s socio-economic progress by creating interest and demand for India’s heritage arts and crafts, by providing employment opportunities and by ensuring that the skills of millions of artists and artisans around the country are preserved, encouraged and stay relevant in the modern world.