Problems Faced by Online Gemstone Traders of NamakMandi market at Pakistani Airports

Syed Owais, Assistant Professor, Department of Sociology, University of Peshawar, Pakistan
*Arshad Khan Bangash, Associate Professor, Department of Sociology, Bacha Khan University Charsadda, Pakistan
Javaria Raza, Lecturer, Department of Sociology, University of Peshawar, Pakistan

*Corresponding author’s email: arshad.dwhh@gmail.com

ARTICLEDETAILS

ABSTRACT

Purpose: This paper analyses the views and experiences of gemstone traders at the NamakMandi (NM) gemstone market.

Methodology: The paper draws on the data from a stakeholder’s workshop held at Bacha Khan University Charsadda (Pakistan) and ten (10) semi-structured interviews primarily with traders, which were conducted as part of a larger research project for identifying factors inhibiting the beneficiation of gemstones in Khyber Pakhtunkhwa and Gilgit-Baltistan.

Findings: The paper demonstrates that while the advent of the internet has ushered in quite a new era in the gemstone trade, particularly triggering higher interest among youth to initiate online gemstone businesses, but they are improvising and experimenting in an environment that is completely devoid of any official regulatory environment or support. In the face of the absence of relevant laws and regulations, the employees of the customs department at the airport resort to extortions and bribes both during the exportation and importation of gemstones in Pakistan.

Implications: Unless an appropriate regulatory and supportive environment is created, online gemstone businesses may have a very sluggish growth, thus, taping its potential to create income-earning opportunities and revenue for the government.

©2023 The authors, under a Creative Commons Attribution-NonCommercial4.0


Introduction

This paper draws on data collected for a research project funded by the Higher Education Commission (HEC) of Pakistan under its Local Challenge Fund (LCF) scheme. While the project has a broader aim to identify individual and institutional factors inhibiting the beneficiation of gemstones in Pakistan, this paper is solely about the potential of online gemstone trade and the challenges the traders face at the airports while exporting and importing gemstones.
The mining and mineral industry in general is one of the major economic sectors in the world (Asr et al., 2019) as it promotes trade, generates employment opportunities, and contributes to per capita income, though it is challenging to plan for as economic, environmental, social, political, and health and safety issues make it a challenging task to realize its potential (Prosser, 2018). When it comes to gemstone trade, in 2015 alone, its international sales were about US$ 10-12 billion (Cartier, 2019). Similarly, trade in rough stones is estimated to be US$ 2-3 billion (Lawson, 2019).

Pakistan hosts significant mineral resources including semi-precious and precious gemstones, but its contribution to national revenue is unequivocally negligible. Pakistan has massive reserves of minerals spanning 600,000 sq. km; out of the 92 known minerals 52 are commercially exploited; there are over 5,000 operational mines, 50,000 SMEs and employs 300,000 workers; it holds the fifth largest copper and gold reserves (Shah, 2018). Some of the minerals frequently found in Pakistan include Bastnasite (Hamidullah, 2004), gold-silver-platinum, emeralds, rubies, topaz, tourmaline, quartz, aquamarine, garnet, tourmaline, peridot, moonstone, pargasite, fluorite, corundum, sapphire, spinel, kyanite, vesuvianite, quartz, flint, chert and jasper, ruby, green, bicolor and tricolor tourmalines, spessartine garnet and morganite (Malkani and Mahmood, 2017). Yet the government does not take full advantage of this potential (Shah and Rehman, 2019; Shah et al., 2020; and Jiskani, Cai, Zhou, & Lu, 2020). Despite Pakistan’s huge potential for gemstone resources (see below), it is not on the list of major players, viz., Sri Lanka, Thailand, China, and India, which are the most important centers for colored gemstone manufacturing, enhancement and trade (Cartier, 2009; 2019). In contrast, the contribution of the mineral sector to Pakistan’s GDP is around 3% and its exports are only about 0.1% of the world’s total. In the year 2017, Pakistan’s total mineral exports were US$ 0.5 billion as compared to the world’s US$ 401 billion (Shah, 2018). The various factors inhibiting the gemstone sector in Pakistan are reviewed below with a particular focus on the gemstone trade. The disadvantage is born out by low technical and financial inputs, poor infrastructure, a lack of clear-cut mineral concession rules at the provincial level, the unsatisfactory law and order situation in mineral-bearing areas, outdated mining methods, and the relative absence of mineral processing equipment (Husain, 2005).

Both the government and private sector has had a casual treatment of the sector. For instance, In Swat, a project for local women – most of whom were the wives of the miners – were trained to cut up to 3mm emeralds for a European firm. Similarly, the Aga Khan Rural Support Program (AKRSP) undertook Gem and Jewelry Project with funding from the European Union to build a more sustainable gemstone value chain. The project trained selected local miners in better and safer mining practices and cutting and polishing of gems (Lahiri-Dutt and Brown, 2017). Except for these two, the published literature does not showcase the private sector’s regular engagement with the gemstone sector. Similarly, the provincial and federal governments have yet to institutionalize an Act or authority to exclusively treat gemstones as an independent and economically worthwhile sector. In 2016, the Trade Development Authority of Pakistan (TDAP) reported a range of problems resulting in the stagnation of the gemstone sector of Pakistan. Some of the frequently documented problems include the following: the limited scale of gemstone cutting and polishing with outdated techniques (Makki & Ali, 2019).

If these problems did not exist, the mining sector could have had manifold contributions, such as facilitation in the exploitation of natural resources, improvement in per capita income, employment generation, trade promotion, enhancement of income level, and overall acceleration of economic growth. (Shah, 2018). The gemstone trade in Pakistan is a completely informal institution. A gemstone often moves informally to reach a market in Peshawar, Islamabad, or some other place. The relatively well-off traders take their products to major gem fairs in the US and Europe and cross into western China for trade and exploration of newer markets (Lahiri-Dutt
and Brown, 2017). In a sense, Pakistan’s gemstone supply chain is convoluted and fragmented. In a world characterized by low coordination between sellers through Pakistan, foreign buyers can very easily deceive them (Lahiri-Dutt and Brown, 2017). Similarly, the traders have to rely on cutting and polishing services that are very limited in scale, outdated and with no capacity to cater to the demands of a growing market (TDAP, 2016). Since there is no policy for banning the export of rough stones, a general lack of modern lapidary throughout Pakistan has resulted in the export of large amounts of rough stones out of the country. The traders often take their products to Bangkok for cutting and polishing (Lahiri-Dutt and Brown, 2017).

The marketing strategy may be developed to capitalize on domestic and international demand for the mineral sector focusing on domestic promotion, and facilitation of investors to participate in international expos, display centers, and export facilitation centers with the improved role of Pakistan expatriates. Access to Finance may be increased by the introduction of new financial products with proper mine collateralization mechanisms to cater for the financial requirement of the sector of the State Bank of Pakistan. These may include; financing against products, equity participation funds, credit guarantee schemes, cash flow-based financing, etc. Sufficient Infrastructure for enabling business i.e., mine access roads, connecting roads network, utilities and industrial zones is one of the key factors behind low investment and poor growth of the minerals sector. The technology adopted both in the extracting and processing sub-sectors is outdated and is unable to produce standardized and uniform quality products for the domestic market in general and the export market in particular. The quarry wastage in Pakistan reaches 75% as compared to the international standard of up to 45% (Shah, 2018).

Methodology
As mentioned above the data for this paper comes from an ongoing research project on factors inhibiting the beneficiation of gemstones in Pakistan: a mixed-methods value chain analysis of mining and trade in the gemstone industry of Khyber Pakhtunkhwa and Gilgit-Baltistan. The project is funded by the Higher Education Commission (HEC) of Pakistan under the Local Challenge Fund (LCF) scheme. The project is based on the logic of mixed methods research (MMR) design. We particularly adopted the exploratory sequential design, which is a “three-phased mixed methods design in which the researcher starts with the collection and analysis of qualitative data that is then followed by a development phase of translating qualitative findings into an approach or tool that is tested quantitatively” (Creswell and Plano Clark, 2018: 84). The dearth of data and empirical reports regarding the working conditions, operations, and processes involved in the mining, processing, cutting, polishing, and sale of gemstones warranted the initiation of the project. Similarly, a lack of information on the subjective aspects of actors’ lives engaged in the gemstone sectors of Khyber Pakhtunkhwa and GB was yet another justification for the research project. An exploratory sequential design seemed the most viable option for firstly documenting the subjective, lived, and experiential accounts of research participants, and building on a thematic analysis of interviews with them, the researchers developed questionnaires for generating quantitative data.

The project’s target was to conduct 60 semi-structured interviews (SSIs) with Staff members of the Mines and Mineral Departments of Khyber Pakhtunkhwa and Gilgit-Baltistan, (2) lessees of mines, (3) sub-contractors of mines, (4) miners, (5) gemstone traders, lapidarist and operators of private gemstone testing laboratories at NamakMandi (NM) gemstone market, Peshawar. It should be noted that this article draws on interviews conducted at NamakMandi. We conducted 16 SSIs between May 2022 and July 2022. However, we rely on the analysis of only ten (10) SSIs as those were conducted with the gemstone traders of NamakMandi. It is also worth highlighting that our interviewees identified a large variety of issues and challenges that they had heard, seen, and/or experienced throughout their careers in the gemstone sector. However, this paper reflectively focuses on the non/role of government in the encouragement/discouragement
of online business as perceived and experienced by the traders based at NamakMandi (NM) gemstone market, Peshawar.

It is important to mention that to abide by the principles of ethical research, viz., (1) informed consent, (2) no harm (3) anonymity, and (4) confidentiality (Bryman, 2012), the researchers began data collection after appropriate approval by the (1) Bio-Safety, Environmental and Social Safeguard Committee and (2) Research Ethics Committee of the leading research institute, i.e., Bacha Khan University (Pakistan). From those research participants who consented to record their views, the researchers digitally recorded their consent before proceeding with the interviews. The researchers gave printed research information sheets and consent forms to all those participants who did not allow the recording of their views. Moreover, besides following the precepts of the aforementioned committees, the researchers have been cautious even in reporting the research findings. Thus, having learned from the field that online gemstone traders operate precariously and keeping in view the general environment of too much policing in Pakistan and the jeopardy in which academic researchers operate (Owais, 2021), we consider it worthwhile to completely anonymize the participants. Thus, instead of using pseudonyms as typically prescribed for ethically responsible research (Bryman, 2012; Neuman, 2013), we have adopted a further safer approach by simply numbering interviewees’ responses and eliminating their names altogether, i.e., interviewee-1, interviewee-2, and so on.

The Research Sites

NamakMandi (NM) has been the trading hub of precious and semi-precious gemstones in Peshawar since the early 1970s. The market caters to the trading needs of dealers from Afghanistan, Tajikistan, Khyber Pakhtunkhwa, and Gilgit-Baltistan, but there is no database to determine the number and typology of offline and online gemstone traders in the market. According to an only published estimate, there are about 500 shops in the market, including traders, lapidarist, polishers, and specimen collectors and dealers (Rehman, Bilal, Owais, Rahman, & Shen, 2021). From a methodological point of view, two characteristic features of NM are especially worth highlighting. Firstly, its nomenclature would suggest that it is just a ‘mandi’ that is physically located in a single, physically contiguous area and building. The reality is quite different, though. In contrast to the classic economic thinking, the gemstone market at NM has not evolved in a linear process of structural differentiation resulting in the functional specialization. That is, individuals who are designated and famous for cutting gemstones will indeed routinely engage in that occupation, they also conduct online and offline (physical) trade in gemstones. In other words, of the 500 estimated shops at NM, there is no empirically verifiable data about the broad typology of shopkeepers in terms of, e.g., lapidary, polishers, retail dealers, online dealers, offline/physical dealers, and laboratory operators. Secondly, there is no fixed physical space designated as the NM gemstone market; the ‘market’ has circuitously evolved in an area where a number of small and big buildings, which are located at short distances from each other and, besides catering to trading needs of gemstone dealers, also have pharmaceutical wholesalers, food vendors and shopkeepers dealing in second-hand imported automobile spare parts. Thirdly, according to our qualitative data, some online dealers regularly visit the NM gemstone market, but they do not rent or own a shop in the market. They collect gemstones from the market but sell them online from their homes.

The data presented below can be taken as a revelatory (Yin, 2013) or exemplifying (Bryman, 2012) case. Firstly, NM is not the only trading hub for gemstone dealers, but to the extent that it caters to the trading needs of gemstone dealers from Gilgit-Baltistan, Afghanistan, and Khyber Pakhtunkhwa (Rehman et al., 2021), the study of its online gemstone traders is revelatory or modal problems, which the online gemstone traders in Pakistan’s other areas (e.g., Karachi) could face. Secondly, a number of interviewees unequivocally declared NM as the first and main point for lapidary, marketing, and trading of gemstones.
Data Analysis
Gemstone trade in general and online in particular has a huge potential as means for self-employment and as a revenue source for the government. Yet, as mentioned above, there is no gemstones-focused authority or act to regulate and encourage it. This is alarming given that the recently-drafted Federal Government’s Act (GoP, 2021) and mineral development policy (GoKP, 2022) do not substantially mention anything for supporting and encouraging online gemstone business in Pakistan. A research participant, while describing his trading tours around the world, claimed:

NamakMandi gemstone business has increased and has a very good effect on the market. Traders are busy: poor, middle class, everyone earns according to their potential. In particular, the specimen and crystal business. They [foreigners] like Afghanistan, Pakistan, and Brazil gemstones because these countries’ stones have beautiful colors and luster. Gemstones have no fixed price, so people buy them in one place and sell them in another. Pakistani and Afghan traders are establishing themselves all over the world, including Africa, Brazil, Thailand, China, Honking, the United States, and Europe. (Interviewee-3)

Such claims were put forth as counterfactuals to interviewees, and most of them admitted the significant role that NM has been playing in the gemstone trade but also complained about the government’s lack of interest in the shape of its lack of an export/import policy for the sector. For instance, an interviewee alluded to his experience of the gemstone trade in India as follows:

… India's growth is due to the import of workers and natural resources from America, Brazil, and other countries; they obtain cheap rough materials from America because labor in America is expensive (approximately $25 per hour), so mine goods are exported to India. What we need to do right now is keep a careful eye on other nations' gemstone export policies. Our people are extremely gifted; they do magic with basic machines that amaze specialists from other nations. I'm a businessman who travels to Bangkok, Brazil, Burma, and India to make products out of my rough stones since they charge PKR 20 per carat in Thailand, but PKR 100 per carat in Pakistan. Why not our products? Most Pakistani businessmen travel to Bangkok to buy and sell their products in our nation. It is due to our people's incapacity. I constantly say in our country, "We have the wrong person for the job." This is especially true in the field of leadership, where we need competent leaders and need youth to step up and lead. (Interviewee-7)

Despite a lack of support mechanisms and official policy, the field data suggests that online trade has been growing at a steady pace. More interestingly, youth have been taking the lead in initiating online businesses on their own. The provision of exact demographics of online traders is beyond the scope of this paper. That their population has been increasing is indeed an encouraging sign. For instance, a young entrepreneur estimated that “the internet gemstone business in Peshawar is growing by the day; 90% of young dealers sell their stones at unimaginably high rates, and they deal in a much larger volume” (Interviewee-1).

Youth’s entry into the online business is a game-changer. Firstly, being young, they are not afraid of taking risks in innovating and improvising. Secondly, while they might not be experienced in distinguishing between various qualities of gemstones, but being good at navigating online, their entry into the sector seems to fill the caveats in the gemstone business at NM, which was traditionally run skeptically behind closed curtains (Rehman et al., 2021). Referring to this aspect of the gemstone trade, an interviewee boasted that, “our rough has touched every part of the world thanks to the online market. We send to Iraq, where there is no display, but people purchase for research and decoration. We have rough material that you won't find anywhere else, such as Pink Topaz, as well as many other rare stones” (Interviewee-2). Regarding the online trade, an interviewee reflected:
The sudden arrival of the online gemstone business changed the whole situation. Now people come here and sell their stones. If the online work had not arrived, then the gemstone business in Pakistan would be gone totally. We are happy to see new entrants in the market because they bring new ideas and boost the buying and selling process. At first, when the illiterate saw the new entrants, they got jealous because they thought they would disturb their business and customers, while the educated people felt happy that they would upgrade the market. Now look, I am sitting here only to provide stones to young people, who upload them for online sale, which in turn generates profit for me and that young trader as well. We have the experience of finding stones at a reasonable price and they have the experience of selling them online, so that’s why we both benefit from one another. (Interviewee-4)

Yet the government’s role in the steadily growing online gemstone trade is next to zero, to which the rest of this paper is devoted. Given a lack of policy and regulatory framework, it is purely a trader’s luck to see his exports cross borders without a glitch. In the absence of a policy and a supportive regulatory environment, it is customary for a trader to be swung back and forth for the provision of documents. For instance, complaining about the government’s postal services, an interviewee said, “if you tell them that you do not want all these, they reply that go and ask from APCEA. They told us that these documents are mandatory, otherwise don't ship it” (Interviewee-9).

Perhaps, the biggest hurdle discouraging online trade is the customs official. They are equally noncooperative and at times trouble-makers both in exporting gemstones and in the case of importation of gemstones or the receipt of returned items. Because “there is no formal process for the export and import of gemstones” (Interviewee-10), it is possible for an online traded product to be returned: it could be because the item’s quality was not according to the stated specifications or because the customer changes his/her mind and thus returned the item. Similarly, if a trader orders items from another country, it would take quite a long to retrieve his goods from the customs officials at the airport. When an item is received at the airport – either because it was returned or because a trader ordered it from somewhere else – a customs official would customarily dispatch it to a gemmologist for assessing its monetary value. Irrespective of how accurate a gemmologist’s estimate is, the process delays the receipt of the good. In this regard, the interviewees suggested having a gemmologist permanently seated at the airport so that he/she can quickly assess for onward delivery to the addressee. According to an interviewee,

The government should appoint gemmologists in airports alongside customs officials because customs officials sometimes stop gemstone importation from Thailand and then look for a gemmologist or expert to check and evaluate it, which takes time and increases the chances of some gemstones being hidden or misplaced. (Interviewee-7)

Delay, misplacement or the problem of an item being hidden are not the only problems caused by customs officials. Bribes, demand for money, and charging an exorbitant amount in the name of ‘customs duties’ are further challenges that online traders have to tackle frequently. A veteran gemstones trader referred to this hazard by saying, “a few days ago, my friends exported the Aquamarine stones lot; I also had a share in that lot, however, at the airport, customs officers seized it and charged me customs of PKR 4,50,000.0 while also returning the box. Who will inquire of them? They call themselves the Gods of the Airport” (Interviewee-8). While highlighting his patriotic sentiments, another interviewee lamented the general environment of bribery in the following:

When we travel overseas, we raise the name of our country and show national stones, but the government’s response has been poor. We are doing things with our efforts. How weird that even in Pakistan, at checkpoints, the police or FC [Frontier Constabulary] hold the rough materials and
demand money. So, what can you expect from the government? (Interviewee-12).

Similarly, another interviewee vehemently criticized, the customs officials in the following:
We have problems with both export and import, but import is the most difficult. When we arrive at the airport with gems, they want money. If we deny, they encircle us and refuse to let us go until we pay them. The stone will be worth PKR10,000.0 and they will charge us PKR 10,000.0; it is very difficult for us. (Interviewee-11)

The problem does not stop at that. Because none of the customs officials has basic know-how of various types of gemstones and their market value, they lump all gemstones in the category of highly precious items such as emerald or blue sapphire. For a custom official, an importer or exporter is a potential tax-evader and an unethical businessman. The virtual control over all operations and the negative perception of traders have resulted in unnecessary intervention in the export and import of gemstones. So much so that even if a gemstone has passed through necessary checks and scans at one airport within Pakistan, but moves to another airport for final dispatch outside the country, the customs officials would again open the sealed goods for inspection. In the words of an interviewee.

The big problem that I observed is that when we send stones from Peshawar, the Karachi customs officials open the parcel and tear the seal. If they like the stones, they will take the stone. No one can ask for it from them. If they don’t like the stones, they will pack again, and sometimes with force. They stamp stones with force, which breaks the stones sometimes. When the customers receive it, they complain about the bad wrapping. While here, we professionally wrap an ordered item, but the customs officials spoil our name and trade. (Interviewee-10)

Finally, in situations when an item is returned – either because the traded good did not have the required specifications or because the customer changed his/her mind –, it is equally challenging for online traders. Pakistan is perhaps the only country whose customs officials charge customs duties twice, i.e., when a traded good crosses borders and when the same good is returned. According to a complainant, “… the big problem is the customs department. They are corrupt people. You must pay taxes even if your stones are returned because a customer does not like them and sends you back, so you must pay as an export and then as an import. I gave them PKR 85,000.0, which was completely unfair, but who will ask them?"

Conclusion
Pakistan’s gemstone sector holds considerable revenue-generating potential that can bring opportunities in bringing economic growth and prosperity (Ashraf and Cawood, 2019). This can be accomplished when a well-designed policy is appropriately executed, and challenges are overcome in a way that fully utilizes the mineral potential of the country (Jiskani et al., 2020). The gemstone sector of Pakistan has the potential to provide employment opportunities, particularly for locals, thus aiding the establishment of livelihoods (Makki & Ali, 2019). Nevertheless, this takes place under informal and unregulated circumstances, and the extraction has been found to make little contribution to the economic development of its “origin” (Cartier, 2009; and Makki & Ali, 2019). The data presented above has demonstrated that although the advent of the internet has sparked quite a renewed interest in the gemstone trade – particularly, among youth – to initiate online gemstone businesses, nonetheless, online traders are improvising and experimenting in an environment that is not only completely devoid of official regulatory environment or support but also due to absence of relevant laws and regulations, the employees of customs department at the airport resort to extortions and bribes both during the exportation and importation of gemstones in Pakistan. Unless an appropriate regulatory and supportive environment is created, online gemstone business may have a very sluggish growth, thus, tapping its potential to create income-earning opportunities and revenue for the government. Besides the
immediate need for technical assistance in gem cutting and polishing, gem testing and appraisal, gem mining, and foreign investment in the form of joint ventures (Ahmad, 2004), Pakistan’s online gemstone business sector requires an exclusive regulatory authority to pull prospective investors in and realize its true potential.

Acknowledgements
The Authors would like to thank the Higher Education Commission (HEC) of Pakistan for funding the project under its Local Challenge Fund (LCF) program and for the candid support throughout the project management cycle.

References


