



GEM INDUSTRY IN SRI LANKA

There was an upheaval in the Gem Industry Circles of Sri Lanka when officials of the State Gem Corporation raided the premises occupied by the Thai nationals in mid 1983. The resultant reaction was much debate on this issue at both the government and massmedia level, and these repercussions are still being felt today. With a view to obtaining a first hand knowledge of this situation the writer conducted a comprehensive study of the issues.

This article is based on his study, which will be published fully in due course, and the information gathered from people associated with the gem trade in Sri Lanka at various levels.

Introduction

Sri Lanka has one of the worlds largest reserves of the milky stones called "Geudas" which have the same composition as blue sapphires.

A study of the geuda trade, which is of major significance in the present day gem industry in Sri Lanka and which has been the subject of much controversy, is presented here. This stone whose economic importance was not recognized by gem businessmen and the authorities and which was thrown away by gemmers until recent times has brought about a considerable transformation in the gem industry during the last six years. Special attention here has been paid to the effect that the Thai nationals who were at-

tracted into the local gem trade by this variety of stone have had on the industry.

Having entered the local gem market six years ago they have influenced it considerably. Their influence on the local economy and sections of society in which they operated has been both beneficial and harmful.

By the identification of a new type of gem the Thai participation has considerably raised the economic and social level of thousands of persons connected with the gem industry. On the other hand this has had a harmful effect on the prestige that Sri Lanka has had so far in the gem trade. Leading gem merchants of this country maintain that illegal activities were rampant in

Figure 1. Left, milky white "guada" corundum from Sri Lanka; photograph by Tino Hammid. Right, intense blue colour induced in Sri Lanka "geuda" by the heating method described in process 3; photograph by Michael Harvested.

the gem trade as a result and that the activities of the Thai gem traders were causing much damage to the local economy and they were making fortunes by smuggling raw geuda stones out of the country and turning them into precious stones. These gem merchants insist that the Thais should be removed from the local gem trade since the Thais carry gems out of this country by illegal means and the country loses foreign exchange. They point out that this will inevitably lead to a serious blow to the gem trade of Sri Lanka.

This situation prevailing in the gem industry of Sri Lanka at present is discussed here. A detailed review of Sri Lanka's gem industry was made in an earlier issue of the Economic Review in September 1977.

THE GEM INDUSTRY IN SRI LANKA

Impact of Thai Intervention

Due to the identification of a new variety of gem among the gem resources of Sri Lanka a new trend has emerged in the gem industry and a greater number of people have taken to it. This has coincided with the entry of foreigners into the local gem industry for the first time in recent history. Previously the foreigners who came to buy local gems were mostly westerners and in earlier times Arab traders. They came to buy various kinds of precious stone for which Sri Lanka had been traditionally famous viz. Blue Sapphires, Rubies, Catseyes etc. These customers in recent decades came to Colombo, stayed in leading hotels and purchased cut and polished gems through well-known gem merchants or from the stalls of the State Gem Corporation. In 1978 another group of foreigners started coming in. They were the Thai gem traders and they had a different purpose. They were often gem and jewellery shop owners of Thailand and what they wanted to buy were not the precious stones for which this country has been long famous. They were interested in a kind of stone of so little value that the gemmers would throw it back into the pits when they came across such stones. This stone is known by the term 'geuda' the name given it by the Thais themselves.

Although this variety of stone is found in abundance in gem pits, only the larger stones were taken home by the gemmers to be kept as ornaments or to be given to friends while the stones of medium or small size were thrown back into the pits. These stones have sometimes been set on the garden walls of gem businessmen in the Ratnapura area.

Until the Thais came to this country looking for this variety of

stone, neither gem businessman or geologists nor the State Gem Corporation were seriously aware of its structure or the category to which it belonged or its value. It was only the kinds of gem mentioned earlier that had any commercial value in Sri Lanka's gem trade.

Thailand has been famous for its gems from ancient times. Rubies and Sapphires of high quality were found in large quantities in the areas of Chanthaburi and Trat in the Western part of Thailand. In addition to these Zircon, Garnet, Quartz, Amethyst, Opal and Aquamarine and Diamonds are found in small quantities. Thailand like Sri Lanka has long years of experienced and an international reputation for its gem industry.

The first country to involve Thais in the gem business was Australia. The Thais were in the Geuda gem business in Australia for some time but the Government of that country for some reason decided not to allow them to carry on the business. Thereafter they eyed Sri Lanka. By this time the major gem businessman of this country were engaged in selling gems, taken out of the country legally or illegally in Thailand. At the beginning the stones thus taken to Thailand and sold were those that had traditional value. Later several persons carried geuda stones too and sold them there. The Thais who purchased geuda stones 'for a song' from businessmen of this country had no idea of the real value of the geuda stones. The Thais had the know how to turn them into valuable gems by a scientific process. When they found they they could buy geudas at a very low prices, they came here and together with Sri Lankan businessmen went on heavy buying sprees. However, the secret business could not continue very long because

more and more Thais started coming here for the same purpose.

The Thai nationals who thus came to this country in great numbers set up purchasing centres through local individuals and began purchasing geudas with a great fanfare of publicity. At this stage most gem businessmen and gemmers did not even know what geudas were. With the influence of Thai nationals and due publicity geuda prices went up gradually. In the initial stages there were instances when a kilo of geuda was sold for a mere two or three hundred rupees. Finally these stones went up so much in price that sometimes they were sold at about Rs.15,000 or 20,000 per carat.

The Thai nationals who purchased geudas in Colombo later went further and took residence in rented houses at Ratnapura and started buying gems on their own. It may be said that with the Thais taking up residence at Ratnapura there was a new turn in the gem business of this country.

The setting up of the State Gem Corporation

The recent history of the gem industry in Sri Lanka may be divided into two main periods, namely before and after the setting up of the State Gem Corporation in 1972. Before the setting up of the State Gem Corporation the gem business of this country was in the hands of a few individuals and its economic and social effect on the country was very limited. This group which was concentrated at Beruwela conducted the business of gems, which was a source of great wealth in the country, on an extremely personal basis. Until that time (1972) the real importance of this sector to the economy had not been realised. In addition to those at Beruwela a few persons in the Ratnapura area too were engaged in the gem business. The gemmers traditionally did that work in addition to their

work as cultivators. They did not have the knowledge to evaluate every gem they found and were in the clutches of crafty businessmen. Often they did the work of gemming as hired labourers in mines belonging to powerful families of the areas. They received a measly allowance each week for this work. Sometimes when they found a valuable gem they received a small "santhosam" (bonus) for it.

If a valuable gem was found anywhere in the island it found its way to Beruwela. Affluent gem merchants owning palatial houses and luxurious motor vehicles purchased it at a price fixed at their own discretion.

As there was no standard price or a knowledge of international prices, the owner of the gem had to go back home after accepting whatever price offered him.

Once these gems were brought by these traders no one knew for certain what would happen to them. The entire transaction was done extremely privately and confidentially and no Government authority was vested with any power to interfere in this business.

It is not possible to estimate the resulting losses to the national economy by this attitude of indifference to a valuable economic resource. Often these gems were sent out to other countries through illegal means.

It was in 1972 that for the first time a Government of the country took action with necessary laws to safeguard this valuable resource the benefits of which the national economy was being deprived of. On a proposal made by the then Minister of Finance Dr. N.M. Perera, the State Gem Corporation was set up with the absolute ownership of all the gem lands in the country and the right to control all aspects of the

Table 1

(Earnings from Gem Exports (Rs.))

1947	37,783
1951	185,370
1955	601,036
1958	1,535,952
1959	2,964,254
1960	3,016,698
1961	2,359,576
1962	3,563,586
1963	3,646,891
1964	1,312,127
1965	4,080,241
1966	3,884,456
1967	3,471,145
1968	2,028,357
1969	674,105
1970	4,284,356
1971	3,446,286
1972	12,331,076
1973	140,785,869

Source :Records of the Sri Lanka Customs

gem industry. Accordingly the power to control all activities pertaining to gems from mining to export was vested in the Corporation.

With the setting up the State Gem Corporation there was a re-assurance in the Gem Industry. Because the head office of the Corporation along with its Central showrooms was located in Colombo centres of the gem business gradually emerged in Colombo. Entry of

new businessmen into the gem trade could also be observed. Meanwhile, due to the various incentives offered to exporters there was a record increase in the value of gem exports. This is well reflected in Table 1.

During the period prior to the inauguration of State Gem Corporation (1943-1971) the highest annual export values were seen in 1965 and 1970, as shown in Table 1. Since 1971 (immediately after the Gem Corporation was set up) the gem export values have gone up drastically from Rs.3 million in 1971 to Rs.12 million in 1972; an increase of 25.7.8% over that of the export values recorded in 1971. The highest ever growth rate of export incomes in the gem export history were recorded in 1973. This was an unbelievable 1042% increase over the export value in 1972. Up to the year 1978 these export earnings kept gradually increasing and since then have kept fluctuating upto 1984.

After the setting up of the State Gem Corporation a great difference is observed in the values of gem exports. A striking feature here is that the exports of the private sector have always surpassed those of the State Gem Corporation. Another fact is that the gem exports in the period 1972-1978 have not shown a continuous upward trend unlike the other exports. For instance there was a continuous upward trend from 1972 to 1976 but a fall in 1977. Thus a fall in export earnings has been recorded in the years 1979, 1981, 1982 and 1984 compared with the export figures of the preceding years. Although there were several benefits to the economy and the industry from the activity of the State Gem Corporation between the years 1972 to 1978, it may be said that this same situation has not prevailed thereafter. The

Table 2

**The Value of Gem Exports after the setting up of
the State Gem Corporation (Rs.Mn.)**

Year	State Gem Corporation	Private Sector	Total	Annual Percentage Change
1972	6.6	8.8	15.4	
1973	24.9	128.0	152.9	892.9
1974	15.9	116.9	132.8	-13.2
1975	10.6	178.3	189.0	23.6
1976	8.8	278.4	287.1	51.9
1977	10.9	242.9	263.9	-8.1
1978	82.6	442.5	525.1	99.0
1979	45.2	449.5	494.7	-5.8
1980	65.4	598.3	663.7	34.2
1981	8.4	624.1	632.5	-4.7
1982	7.5	385.9	393.4	-37.8
1983	1.4	519.1	520.5*	32.3
1984	6.8	497.7	504.5*	24.4

* Includes 64 million in non commercial export of the private sector

Source : State Gem Corporation

The discrepancy between the gem export figures for 1972 and 1973 in Table 1 and 2 is due to the fact that Table 1 is based on customs records. It has been possible to obtain a far more realistic and accurate figure only after the State Gem Corporation was set up.

policy of free exports implemented (after 1977) may be said to have had some influence here. Except for 1980 there have been big declines in gem exports during other years.

With the policy of an open economy which came into effect in 1978 the import-export trade became more open. The number of businessmen of various types going abroad from this country and coming here from other countries increased rapidly. Air and

sea traffic increased. There was great activity in the airport and the Colombo harbour. Due to these reasons private traders, who were in the gem business appear to have reduced their transactions with the State Gem Corporation and tended to carry on their business through other measures. There appears to have been greater opportunities for smuggling of gems. Regular detections by Customs officers at airports and other points have borne this out.

It is well known that smuggling

of gems is an extremely well organised affair. Although there has been a rapid decrease in the recorded export of gems after 1978, there has been no significant decrease in the mining of gems and the gem business in the gem bearing areas. This is made clear by the figures relating to the permits issued by the State Gem Corporation for business activities in gems. See Table 3.

Smuggling of gems out of the country appears to have increased after 1978. Due to facilities available for unhindered import of all kinds of goods, the funds realized by the smuggling of gems might have often been used for the import of profitable uneconomic goods. Due to this reason, although the gems found were purchased by private businessmen there are few records of what happens to such gems thereafter. This is confirmed by the rapid drop in the values of gems sold to the Corporation although business activity in gems has remained unchanged. Table 4 illustrates the purchases of Gems by the State Gem Corporation.

These figures show that after 1978, especially after 1980, neither the businessmen nor the miners have tended to sell gems to the Corporation.

There has been a special factor influencing this situation. It was the entry of Thai nationals into the gem trade here. They first purchased gemstones but later they moved on to buy other kinds of gems too. This situation, in addition to the lack of any incentive in going to the State Gem Corporation has led to a decline in gem sales to the Corporation.

A New Era

While the time before and after the setting up of the State Gem Corporation may be considered two major periods in the

Table 3

Issue of Permits for Gem Business and Mining of Gems			
Year	Mining	Business Activities	Total
1972	1,565	2,422	3,987
1973	3,537	2,335	5,872
1974	3,027	1,737	4,764
1975	2,977	2,160	5,137
1976	3,637	2,544	6,181
1977	4,179	2,565	6,744
1978	4,179	2,720	6,899
1979	4,325	2,354	6,679
1980	3,946	2,741	6,687
1981	3,550	2,554	6,104
1982	3,385	2,097	5,482
1983	3,692	2,106	5,708
1984	3,472	2,168	5,640

Source : *State Gem Corporation*

gem industry of this country, as pointed out there are the post 1972 period (the period after the Corporation was set up) and a new era after 1978.

What happened with the entry of Thai nationals into the local gem trade may be said to have taken the gem industry along a path different from those of the two former periods.

The distinguishing feature of this period is that the monopoly that leading personalities in the gem industry had held in both the preceding periods broke down considerably after 1978. The other main feature of this period is the apparent inactivity of the State Gem Corporation. As several local businessmen pointed out the Cor-

poration with all its powers was indifferent to the activities of the Thai nationals who came to this country as tourists and started buying gems with no permission or right whatsoever. They pointed out that State Gem Corporation officers continued to penalise villagers who dug pits in their own land or the paddy field in their search for gems and even confiscated their implements but took no notice of the Thai nationals who carried on business day and night, opening purchasing counters and displaying advertisement boards, in close proximity to Corporation officers.

Economic and Social Impact of Thai Gem Traders

At the start the Thais arrived in Sri Lanka in small numbers and

there was no appreciable increase in prices of geuda stones; but when they later began to come in large numbers greater competition occurred and these stones began to grow rapidly in price and finally reached a level of the prices offered for traditionally more valuable gems. It is interesting to note that though the first batch of Thai nationals who came here to buy gems were the leading businessmen from Thailand the majority of those who moved on to residence in Ratnapura were not so wealthy. When it was realised that gems bought in Sri Lanka could command a very good market in Thailand, it is possible that a large number of small time businessmen too thought of coming to Sri Lanka for business. Just as some years earlier it was found that leading businessmen in Sri Lanka travelled to Singapore and brought back various articles

Table 4

Purchase of Gems by State Gem Corporation (Rs.Mn.)	
1973	107.7
1974	13.0
1975	6.4
1976	8.2
1977	6.3
1978	21.9
1979	40.9
1980	1.4
1981	4.2
1982	3.6
1983	1.1
1984	11.5

Source : *State Gem Corporation*

which fetched a high value here, and later the small scale businessmen too followed their lead and began going on shopping sprees to Singapore with a view to reselling in Sri Lanka the goods they had bought; similarly the Thais too appear to have come into the gem business in Sri Lanka in stages.

Though the Thai nationals were novices to the gem trade in Sri Lanka, once they took up residence at Ratnapura, they were able to create somewhat of an impact on the gem industry in the country. Once the stones which hitherto had seemingly no value began to fetch a comparatively high value the Thai nationals were able to keep the gemmers in Sri Lanka bound firmly to them. Meanwhile, these Thai merchants who did not wait at their office desks to make purchases, began to visit the places of gem mining and thereby created a new awakening

The International Market for Gems of Sri Lanka

We have so far not been able to make the best use of Sri Lanka's position as a major producer in the international gem market. Although our gems have been supplied to the international market from ancient times, the economic benefits we have derived are insignificant. Even after the State Gem Corporation was set up with the hope of deriving for the Government a part at least of the income of the gem industry, (when the difference between the cost and the sale price could seen running into millions) and with the aim of having some control over the industry, the situation has hardly changed. A perusal of the export figures makes this clear. The position of Sri Lankan rupees received for gems exported from this country after 1975 has changed over the years. The devaluation in the value of the rupee after 1977 makes it difficult to gauge the actual position in terms of

Countries to which Sri Lanka's Gems were exported in 1984

Country	Rs.	Percentage of Total export
Japan	235,403,000	7.0
U.S.A.	63,627,000	13.0
Hong Kong	58,623,000	12.0
Singapore	41,698,000	8.0
Switzerland	36,213,000	7.0
France	3,120,000	6.0
West Germany	1,273,200	2.4
United Kingdom	9,755,000	2.0
Other	43,080,000	9.0
Total	504,575,000	100.0

Source : State Gem Corporation

rupees. The following figures which are in SDR's give a more realistic picture.

Sri Lanka's Gem Exports Value in SDR's (million)

1975	22.39
1976	29.51
1977	25.33
1978	26.82
1979	24.50
1980	32.34
1981	26.46
1982	16.67
1983	19.94
1984	19.29

In the export of jewellery which has been growing in recent years, gems set in jewellery are also exported. When its effect on the drop in gem exports is examined, it is found to be inconse-

quential. The figures at right show the exports of jewellery.

Exports of Jewellery - 1778-1984 Value in Rupees

1978	3,585,036
1979	6,376,082
1980	9,307,516
1981	15,303,207
1982	19,935,236
1983	33,294,600
1984	20,598,267

Source : State Gem Corporation

According to the State Gem Corporation, the greater part of the value of jewellery is in the gold content. Very often the gems used are very small ones of little value.

The countries that have purchased Sri Lanka gems offered in the international market and their value are given above.

The East Asian countries led by Japan, are among the chief importers of Sri Lankan gems.

Manufacture of Jewellery for Export

The making of jewellery which has existed as a cottage industry from a very early time in this country was meant only for the local market until recently. However, with Government encouragement this industry is now functioning as an important part of the export sector in Sri Lanka.

This industry which was the preserve of a particular caste when it was a cottage industry has now broken out of those confines and has become a source of great wealth and a business open to others too for participation.

Although the making of jewellery has been a traditional craft those practising it had acquired great skill in turning out beautiful products by traditional methods. The Sri Lanka Export Promotion Board and the State Gem Corporation realised that this was an industry that could be very easily developed and were able to provide the necessary facilities for the industry with Government backing. The following facilities have been already made available.

Local jewellers are being sent abroad for training to be trained in new methods of making jewellery. Meanwhile steps are being taken to get skilled craftsmen from abroad for training craftsmen here. Action is also being taken with aid from the EEC and the Government of Belgium to set up an institution to impart training in jewellery making techniques. Training of craftsmen is also being carried on in the jewellery factory belonging to the State Gem Corporation under the National Apprenticeship Board.

An Assay Office has been set up under an officer trained in the Quality Control Institution of England for the purpose of testing whether the jewellery exported is upto international standards and testing their gold content. Steps have also been taken to exhibit local gems and jewellery at international trade exhibitions and thereby to give them international publicity.

Jewellery factories with modern equipment have been set up by the private sector in the Free Trade Zone and outside; and the State Gem Corporation too is operating two such factories.

The taxes imposed on the import of cut and uncut gems for the jewellery industry have been done away with from November 1984. This was announced by the Finance Minister in his budget speech for 1985. The tax on the import of gems ranged from 12% to 100%. The import tax 12% to 60% imposed on machinery used in the gem and jewellery industries was also removed. The turnover tax of 7% on the jewellery and gem cutting industry too has been removed.

The tax holiday for all export products has been extended for 5 more years. Thus the total tax holiday, including that given 4 years ago, will be 10 years.

The Government has taken action to encourage the private sector to produce the equipment necessary for gem cutting and for the production of jewellery. At the international seminar on coloured gems held in Colombo in October last year, the Finance Minister Mr. Ronnie de Mel stated that the Government was taking action to see that all services required by purchasers of gem and jewellery are made available under one roof of the International Gem and Jewellery Exchange which is to be set up in Colombo shortly. The necessary laws for the purpose are already being drafted and the Gem Exchange is expected to be opened by the middle of this year. The Government is also providing facilities for the import of gold and diamonds required in the production of jewellery.

A report prepared by the EEC on the development of the local jewellery industry states that the jewellery industry of Sri Lanka should be labour intensive and not be dependent on machinery. This report was prepared with the intention of giving necessary assistance for the development of the local jewellery industry;

The report points out that the jewellery industry in Sri Lanka should be developed as one of the main industries. If the report is accepted by the EEC, the necessary assistance will be forthcoming within three years. It also emphasises the need to develop the technical quality and designing skills of the jewellers as well as the need to develop marketing and promotional skills.

It is planned to provide specialist services through the jewellery school of the Colombo Technical College, to improve the equipment and the calibrating stones used in the jewellery industry, to grant scholarships for technical training in European Jewellery centres, to fund buyers' missions to Sri Lanka and to give international publicity to local jewellery products through printed material of high quality.

The report recommends assistance amounting to U.S. \$ 26,000 for these purposes.

In order to expedite the development of the jewellery industry the Government has also provided facilities to attract foreign investors. A jewellery production centre has already been set up in the Free Trade Zone.

in various gem mining areas such as Okkampitiya, Balangoda and in the Ratnapura District.

Another special feature in this new development was in the birth of a new class of young middleman who began to buy stones on payment of ready cash to the miners and offer these in turn to the Thai nationals. This class of businessman came mostly from among those who worked earlier in gem pits on a daily pay or those with some formal education but without jobs.

These people have become newly rich in that they are now in possession of semi-luxurious houses and new motor vehicles. These monies which they earned without much effort were spent without any hesitation. The least they gave even to a beggar was one rupee. Also it appears that they were freely offering donations to the religious and social organisations and activities carried on in the area.

As conditions matured to this social level, these gem areas also became a hive of economic activity thereby creating vast job opportunities. In a day, it was not difficult for these people to earn many more times the monthly salary earned by a public servant.

Thus it is clear that with the arrival of the Thai nationals, a new trend had developed in the gem industry in this country. The Thai nationals helped the industry by assisting to identify a large number of stones earlier discarded as worthless, and introduced these stones into a market already dominated only by the valuable gems. This in turn resulted in causing unprecedented economic needs in the gem mining areas. At least for their contribution in this sphere the Thais should be complemented.

Next, we should endeavour to evaluate the merits and demerits of the resentment shown towards the presence of Thai nationals in the gem industry by big-time businessmen and the State Gem Corporation.

A basic requirement for any person to enter the gem business in this country is the possession of a valid permit issued by the State Gem Corporation which grants authority to that effect. On issue of a permit, the business of gems should have to be carried on only at the place at which it was permitted to operate. Generally, the Thais arrived in this country either as tourists or pilgrims. Therefore, they had no right whatsoever to do any kind of business in this country. On the contrary, during the past 5 years they have been actively engaged in the gem business without having any right to do so. Therefore it is to be accepted without debate that the Thai nationals thus engaged in the gem business were doing so without authority. The question that arises here is why did not the State Gem Corporation, which is fully empowered to act in a situation such as this, not take any steps in this area for so long a period. To this question, the State Gem Corporation has no clear-cut answer. What the State Gem Corporation appears to have done is to have

Table 5

Number of vehicles registered in Ratnapura District between 1977 & 1983 (As at January of Each Year)							
	1977	1978	1979	1980	1981	1982	1983
1. Private Cars	3,086	3,247	3,456	3,837	4,000	4,158	4,200
2. Hiring Cars	53	58	56	80	80	87	85
3. Motor Cycles	727	742	811	1,660	2,051	2,263	2,300
4. Private Coaches	50	50	53	81	62	62	62
5. Lorries	1,142	1,156	1,203	1,467	1,587	1,668	1,750
6. Agricultural Vehicles	990	1,029	1,084	1,425	1,563	1,602	1,650
7. Buses	26	26	25	46	69	97	110
8. Trailers	298	325	335	482	453	453	475
9. Horses	1	1	1	1	1	1	1
10. Motor Wagons	8	12	15	18	19	20	20
TOTAL	6,291	6,646	7,039	9,097	9,885	10,410	10,653

Table 6

Percentage Increase of Monthly Average of Bank Deposits					
Bank Branch	1978	1979	1980	1981	1982
Ratnapura	23.4	30.7	38.6	43.4	61.7
Kahawatta	8.4	10.3	12.3	25.0	15.1
Nivitigala	5.2	8.4	9.7	12.2	14.6
Pelmadulla		9.6	14.5	18.5	19.5

kept still until the problem had grown in size and though at the outset it could easily have been nipped by a nail it now had to be felled by an axe.

The next issue that clearly emerges is how the Thai nationals managed to obtain the necessary finance to purchase gems worth millions of rupees. Both gem

traders and gem Corporation officials expressed the following views on this issue. On leaving Thailand for travel abroad as tourists or pilgrims, the Thai traders were allowed to carry only a very limited amount of foreign exchange. Yet while in Sri Lanka they made daily purchases of gems worth millions purely on payment in local currency. There were in-

stances of their obtaining loans from big time local businessmen too. There were also instances when making purchases of very valuable gems, the Thai nationals used to deliver a small scribbled note to the sellers of gems who were requested to call at a particular address in Colombo and collect the money. In this case, the addresses mentioned in those slips of paper were invariably references to Colombo businessmen of an Indian based community. It is difficult to presume that although the Thai nationals bought gems worth millions of rupees in this country, that Sri Lanka benefitted by way of earning any foreign exchange. There is no evidence to show that the gems they bought in the local market, ever left the country legally. If the geudas bought by Thai nationals in all areas, including the Ratnapura area, were exported by lawful means the export figures should have recorded at least a fifty-fold increase. The enormous loss to the state in the form of evasion of taxes and the adverse effect on the economy resulting from the illegal transactions of these businessmen (virtually operating their own Central Bank) which ran into millions each day has never been considered seriously. This was the situation that existed during the five years the Thai nationals were in operation in Sri Lanka and it is hard to believe that the State Gem Corporation was not aware of these illegal operations or was helpless to act.

According to most respondents in this area the State Gem Corporation was aware of the fact that the gems bought by the Thai nationals were being illegally smuggled out of the country. Yet for five years they had not taken any steps to arrest this trend.

Full responsibility for illegal exports of gems should not be

Table 7

Large Scale and Small Scale Burglaries recorded in Ratnapura District recorded between 1979 and 1982

Year	No of Incidents	Comparison with Previous Year
1979	1,032	
1980	1,312	+ 27.1%
1981	2,158	+ 64.5%
1982	1,104	- 48.8%
1983	937	- 15.1%

Source : Police Station, Ratnapura

cast only on the Thai nationals. This is an area of activity that has been an integral part of the gem business from its very inception. A comparison of figures available at the State Gem Corporation with those available for the business of gems transacted within the country in a day, will disclose the extent to which this situation has grown. The authorities have accepted this position. In order to arrest this trend, the measures adopted by the government in the early 1970's by way of introducing tax relief and the FEEC system, and the inauguration of gem auctions by the present government, have both not helped to arrest the situation. This exercise of illegal export of gems is well organized just as the internationally organized smuggling of goods to and from countries or the trafficking in narcotics exists today. This operation of smuggling gems which is carried on with the support of powerful groups of people, came out into the open only when the Thai nationals were also trying to make use of the opportunity. It is also not possible to say that along with the Thai nationals,

the local businessmen too were not involved in these illegal transactions. In some instances, according to informed traders it was not surprising if a gem found at Ratnapura was sold to a princess in the Middle East by a businessman living in Bangkok or Singapore.

In the meantime, when the Thai nationals, following their entry into the gem business, began to take up residence in the gem areas and carry on their business on the spot, they came to operate generally in close contact with the people living in those areas. This led those people to be dependent on the Thais to some extent.

Leading Sinhala and Muslim businessmen in the country described very strongly how the presence of Thai nationals resulted in an erosion of national wealth and the consequent loss of foreign exchange to the country, along with accompanying degeneration in the sphere of our culture. It was further alleged that while they were in the act of robbing our national wealth, they as a group of people with extremely loose morals have exposed the youth of those areas to

Gems of Sri Lanka

Sri Lanka has a wide variety of gems and it is a unique phenomenon that practically all these varieties could be found in the same gem vein. There are however, certain areas which are well known for different varieties. While all varieties of gems are found, in the Ratnapura district alexandrites and cats eyes are mostly found in the south west region in Deniyaya, Morawaka and Hjiniduma, whereas Elaheera is well known for blue sapphires and garnets.

Corrundum

The most important gem stone in Sri Lanka and the blue sapphire of this variety accounts for normally 60 per cent of its exports. Corrundum crystallises in the hexagonal system and its main chemical component is aluminium oxide. However, various impurities singly or in combination give it different colours. Shades of yellow, blue and green in corrundum are often caused by the presence of iron while chromium gives it a red colour. Manganese makes it purple in colour while Titanium make it blue in colour. Colours could range from pale and light to deep, and the distribution is invariably patchy and rarely uniform.

Blue-Corrundum

Commonly known as the sapphire occurs in different degrees of transparency. Flawless transparent stones are rare. Colours could range from pale and light blue to greenish and deep blue with irregular colour patches.

Ruby

Another stone of the corrundum variety receives its red colour from chromium oxide. Most of the rubies found to as pink sapphires. The deep red or 'pigeon blood' are rarely found in Sri Lanka.

Yellow-Corrundum

Available from pale yellow to deep golden yellow. Large stones have been found in certain areas. Yellow sapphires are fairly common.

Padmaraga

Another colour variation of the corrundum, the more valuable stones have a deep orange colour with a red-

dish hue. There are colour combinations of yellow red and a tinge of pink. Apart from the above colours, parti-coloured stones are common.

Asteriated or Star Corrundums display six rayed stars when cut en cabochon. It does not have facets but is round or oval in shape or with double convex faces. The maximum effect of the star is produced when the stone is cut with the centre of the curved surface lying in the axis of the crystal and is best seen when observed under a direct single source of light. The star phenomenon is purely a reflection effect caused by microscopic needle like mineral inclusions or minute cylindrical cavities, either of which are arranged in a regular pattern. The rays of the stars may be narrow and sharply defined in strong colour against the background colour of the stone. Star stones are available both in the ruby and the blue sapphire varieties. A milky white grey and smoky colours are quite common.

Cats Eyes

This is a fibrous variety of chrysobery containing needle like minerals in the structure or cavities created in a particular fashion. When these stones are cut en cabochon a silvery streak of light is displayed resembling the pupil of a cat's eye; The silvery line or streak of light shows up against the background of a body colour of the stone. Stones are available in milk white, bluish or greenish white or yellowish brown colours.

Alexandrite

This gem stone was named after Czar Alexander II of Russia on whose birthday it was found in the Ural mountains. Its colour varies from dark grass green, emerald green to bluish green and contains a small percentage of chromic oxide. Some stones show the natural colours in day light which changes to raspberry red or violet under artificial light.

Spinel

These occur usually along with corrundum and are found in abundance. The colours here are pale to dark blue, and shades of mauve and purple. Blue spinels are also fairly common in Sri Lanka.

Topaz

Occurs mainly as clear transparent water worn pebbles. Pale yellow, dark yellow and colourless stones occur more abundantly while saffron and light green shades are rare.

Beryl

Composed of silicate of aluminium and beryllium. Absolutely pure beryl should be colourless but different colouring elements such as chromium and iron give it varying shades. Emerald the most important of the beryl variety has not been found in Sri Lanka, though aquamarine a beryl variety is available in colours of greenish blue and pale green.

Garnets

These are very common in Sri Lanka and quite a number of elements go into the composition of the stone replacing each other without affecting the crystal formation under the cubic system. There is generally, a uniform distribution of colour in the garnet. The transparency varies from clear to the turbid.

Tourmaline

It is silicate but has a complex and variable chemical composition. This has resulted in its physical properties differing according to its chemical composition. Various colours are available, while the most common in Sri Lanka is the green tourmaline; blue, orange, brown stones too are quite common.

Zircon

Is combination of silica zirconium with a minute element of uranium. Zircons are found in numerous shades such as brownish yellow, golden yellow, reddish yellow, green, deep orange, brown, sky blue and violet.

Moonstones

Belong to the feldspar family and two varieties occur in Sri Lanka, e.g. stones that reflect only a milky light and the stone that reflects a bluish milky light. These stones are translucent and are cut en cabochon.

Many other stones are available such andalusite, sinhalite, diopside, their colours varying from pale yellow, green and brown to shades of violet and blue.

Source : *Central Bank News Survey, December, 1983.*

corruption and immorality and they were alleged to have even introduced Thai women for immoral purposes in this country. It is said that while the habits of taking narcotics and viewing video blue films were spread among the young girls and boys of the area through the medium of these Thai nationals, school children playing truant were in the habit of digging into heaps of earth in search of tiny pieces of gems which they sold to these Thai nationals.

An effort was made to verify the truth of the allegations regarding the erosion in the national wealth caused by the intervention of Thai nationals and this was to a large extent established. It is clear that a well organized plan is in operation within the gem industry that leads to a drain out of a considerable amount of income through the illegal sale of gems. It is difficult to detail how this system is operated but it is very clear that a very powerful group of persons is behind all these operations. Therefore it should be the duty of those who are in positions of power and responsibility to take steps to divert these monies to the country's resources, through lawful sales and exports. However, it has to be ascertained how far these big businessmen who are all repeating their opposition to the presence of Thai nationals like parrots, in an identical language, are truly nationalist and patriotic people. It would be very useful if the values of their total annual purchases of gems could be compared with the total value of the gems they have legally exported and also if the extent to which their disclosures of income from the sale of gems are accurate and could be ascertained. It could then be seen whether their opposition to the Thais stems from their love for this country. One leading gem trader in Colombo is reported to have

stated that he was prepared to spend even several million rupees to chase these Thais out of the country.

In the attempt to find out how far the Thais were instrumental in introducing immorality into these geographical areas, we were not able to find any evidence in support of such a proposition. However, it is not denied that those areas were completely devoid of immorality which is generally not unusual in areas in which an excess of money is in circulation.

The charges leveled against the Thai nationals by our front line gem merchants were subjected to scrutiny by us. Apart from their engagement in the illegal gem business, there was no substantial evidence in proof of their involvement in vices and other corrupt practices. With the exception of one Thai national being punished by court for misbehaving with local women at Ratnapura, there was no other record of a similar nature; and even these front-line businessmen failed to provide us with examples of such instances of misconduct.

On the other hand several people in these areas said that the Thais were Buddhists and while they contributed lavishly to places of Buddhist worship in the area, they were often absorbed in meditation too in the evenings. On inquiry from tourist hotels in these areas, we were informed that there were hardly any instances of Thai nationals using these hotels for any nefarious activities. Therefore, it is difficult to believe whether there is any truth in these references to vices purported to have been resorted to by the Thais. Perhaps, it may be true that some of them were engaged in such activities, but it could not be deduced that this had any noticeable impact on the local culture in the area.

Further information that we were able to gather was that the presence of Thai nationals in the gem business had caused a considerable dent in the income levels of leading local gem businessmen. This has been most severely felt in the Beruwala area and in Colombo to a lesser extent.

Finally, it could be pointed out that the Thai nationals did a big service to this country by creating a market for such precious wealth which had not been identified in the Sri Lankan economy until they did so with their entry into the gem industry. Also, as a result, there had appeared a new awakening in the gem mining areas. Though it is the duty of the government and others in a position to do so to take steps to arrest all illegal activities carried on by the Thai nationals, the outcome should not have been to cause undue hardships to tons of thousands of our people. If the Thai nationals robbed our national wealth not mere administrative action but legal steps should have been taken to stop this activity and there would have been no dispute over their expulsion from the country on such findings. But, immediate steps should have simultaneously been taken to ensure the continuance of economic prosperity that had been brought to those areas by the Thai nationals. A decision in this area should not have been dependent on the whims and fancies and interests of a few businessmen but determined by consideration of the day-to-day life of the tens of thousands of people living in those gem mining areas.

Smuggling

The illegal operation of the gem trade is well backed by some powerful groups. It is very well organized, with fees charged, depending on the value of the gems to be smuggled out and

Table 8

Profit Position in some Bank Branches in Ratnapura District from 1978 - 1983

Bank Branch	1976	1977	1978	1979	1980	1981	1982	1983
1. Ratnapura	282,114	301,986	706,830	1,001,905	2,263,901	2,017,566	3,213,641	2,518,990
2. Rakwana	454	73,054	135,362	23,219	-	-	2,599	87,484
3. Kahawatta	41,856	114,312	385,225	442,083	119,368	184,717	547,110	856,678
4. Kalawana	-	-	-	-	-	-	139,200	234,104
5. Ehaliyagoda	91,694	93,436	290,948	65,222	424,857	777,564	1,060,632	610,835
6. Pelmadulla	33,972	44,532	157,482	170,343	131,952	267,122	401,979	414,639
7. Mivitigala	-	-	-	-	19,833	79,742	347,129	104,528

the place at which they wished them to be delivered. In addition the smugglers undertook the responsibility for both safety, and delivery of gems at the appointed time and place. Thus a Thai national simply handed over a parcel containing gems to this organization and invariably it was found awaiting him at home on his return. Generally the arrangement was that the parcel would be smuggled out on the same aircraft in which its owner was also travelling. Sometimes they were transported in high powered motor boats away from Sri Lanka, and these are instances of the apprehending of such boats. A capture of one such motor boat off Trincomalee harbour with a large quantity of geudas is a clear example of how this channel is used.

Cash required by Thai nationals to purchase gems was obtained mostly from Indian based traders living in Colombo. In return, the Indian traders were paid in Thailand in foreign currency which is never channelled back to Sri Lanka as foreign exchange. According to the source their monies are some times utilized for other illegal activities as well. When questioned, the state Gem Corporation did not make any comment in this regard but from an examination of the quantity and value of gems ex-

ported by the Corporation there appears to be no record of any such transactions and it could therefore be concluded that transactions by Thai nationals in a large amount of these stones could have in fact taken place illegally. Table 2 highlights the figures of gems exported by the State Gem Corporation and private sector during the past few years.

Thus, although the private sector recorded a gradual increase in the value of exports, it appears to be merely maintaining the average increase recorded from the beginning. However, the figures do not reflect a significant change in

the gem export trade consequent to entry of Thai nationals. Considering the manner in which the Thais were engaged in the purchase of gems during the past two years a significant change in the earnings from gem exports should have been recorded. On the other hand, the gem export figures for 1982 indicate a decrease of 37.3 percent (the year when the largest number of Thai business were operating here).

This situation could be further observed in the statistics reflecting the exports of gems only to Thailand. (See table 9)

Table 9

Value of Sri Lanka Gems Exported to Thailand
(in Rs.Mn)

Year	S.G.C	Private Sector	Total
1978	-	1.2	1.2
1979	-	0.4	0.4
1980	-	14.9	14.9
1981	0.7	38.2	38.9
1982	4.6	9.4	14.0

Source : State Gem Corporation

Table 10

Attempted Smuggler Seized by Sri Lankan Customs Authorities

Date	Nationality	Articles	Value Rs.	Order	Penalty Rs.
30.01.80	Thai	40 Pcs. Uncut stones	1,500/-	Forfeit	2,000/-
27.02.80	Thai	Precious Stones	20,150/-	Forfeit	58,000/-
03.80	India	Gems	25,000/-	Forfeit	10,000/-
08.04.80	Thai	13 Pcs. Uncut stone	80,000/-	Forfeit	249,000/-
20.05.80	Pakistan	Perls	49,725/-	Forfeit	146,175/-
03.06.80	U.S.A.	Rough Corundum 323 carats	3,000/-	Forfeit	No.
16.07.80	Thai	5940 carats Fancy Sapphires	594,000/-	Forfeit	1,885,845/-
21.07.80	West German	Gems	223,124/-	Forfeit	No. (Foreign origin gems released)
24.08.80	Thai	27 Uncut Stones	38,000/-	Forfeit	25,000/-
17.09.80	Sri Lankan	Precious Stones	51,721/-	Forfeit	155,253/-
08.10.80	Sri Lankan	8.02 carats Cats Eye	1,500/-	Forfeit	3,000/-
10.12.80	Thai	Uncut Stones	119,858/-	Forfeit	30,000/-
TOTAL FOR 1980			1,207,576/- =====		
05.10.81	Sri Lankan	Gems	9,537/-	Forfeit	
25.02.81	Thai	810 Carats Ruff Corundum	50,000/-	Forfeit	20,000/-
06.03.81	Thai	Gems	55,872/-	Forfeit	25,000/-
17.05.81	Thai	Uncut Stones	1,290,500/-	Forfeit	100,000/-
28.07.81	Indian	351 Carats Indian Ruby	35,700/-	Forfeit	2,000/-
01.08.81	Thai	Semi-Precious Stones	36,309/-	Forfeit	10,000/-
08.08.81	Singapore	Gems	29,142/-	Forfeit	10,000/-
28.08.81	Thai	9 Uncut Stones	6,232/-	Forfeit	2,000/-
11.09.81	Thai	Gems	77,586/-	Released	7,000/-
01.11.81	Sri Lankan	Gems	128,746/-	Released	25,000/-
TOTAL FOR 1981			1,719,624/- =====		

01.01.82	Sri Lankan	3 Ivory Elephants	14,000/-	Forfeit	2,000/-
18.01.82	Sri Lankan	Semi-Precious Stones	2,100/-	Forfeit	1,000/-
26.01.82	Norwegian	Diamond	40,000/-	Forfeit	10,000/-
13.01.82	Sri Lankan	Gems	4,125/-	Forfeit	No.
22.02.82	Sri Lankan	Semi-Precious Stones	3,711/-	Forfeit	2,000/-
07.04.82	Singapore	Semi-Precious Stones	25,016/-	Gems Released	10,000/-
07.04.82	Singapore	Semi-Precious Stones	38,062/-	Gems Released	5,000/-
03.05.82	Australian	Gems	6,210/-	Forfeit	2,000/-
02.10.82	Indian	Indian Gems (Important)	62,800/-	Forfeit	2,000/-
14.11.82*	3 Thais (Well known to Sri Lankan)	150 Kgs. Geuda (Raided in a house)	1,291,000/-	Released No penalty handed over Island revenue.	
	Pakistan	Gems 853.72 Carats	8,527/-	Forfeit	
12.11.82	Sri Lankan	15 lots of Spinnels	283,846/-	Forfeit	11,655/-
	TOTAL FOR 1982		1,779,407/-		
			=====		
15.02.83	Sri Lankan	80 Semi-Precious Stones	1,750/-	Forfeit	2,000/-
10.03.83	Sri Lankan	Silver Jewellery Studed with Gems	1,790/-	Forfeit	Warned
10.04.83	Sri Lankan	8 Pendent studed with blue sapphire	1,000/-	Forfeit	1,000/-
15.04.83	Pakistan	Ruby chips 93.5 grams	35,062/-	Forfeit	20,000/-
21.05.83	Thai national	Geuda 177½ lbs.	302,000/-	Forfeit	95,000/-
23.05.83	Sri Lankan	110 carats moonstones	14,475/-	Forfeit	2,000/-
25.05.83	Sri Lankan	9 Silver rings studed with cats eye		Forfeit	
13.07.83	Sri Lankan	81 Pcs. Gems	70,776/-	Forfeit	50,000/-
16.07.83	Sri Lankan	Diamonds & Gold Jewellery	238,110/-	Released on a penalty	37,000/-
18.09.83	Thai national	4 Blue Sapphires 12 Geudas	71,445/-	Forfeit	42,071/-
20.09.83	U.S.A.	Precious Stones Jewellery	89,400/-	Forfeit	2,000/-
	TOTAL FOR 1983		825,808/-		

18.02.84	Sri Lankan (Air Lanka Labour)	12 Kg. Geuda	150,000/-	Forfeit	450,000/-
07.06.84	Sri Lankan	Garnets and Ivory Elephants	51,450/-	Forfeit	10,000/-
15.06.84	Sri Lankan	48 Pcs. Diamond	40,002/-	Forfeit	120,007/-
05.07.84	Sri Lankan	Precious Stones Gems & Jewellery	246,850/-	Forfeit	5,000/-
01.10.84	Thai national	15 Kgs. Geuda	50,000/-	Forfeit	2,000/-
06.10.84	Sri Lankan	Semi-Precious	27,725/-	Forfeit	2,000/-
11.11.84	Australian	Gems Stones	113,300/-	Forfeit	20,000/-
TOTAL FOR 1984			679,327/-		
GRAND TOTAL			6,211,742/-		

Source : *Sri Lanka Customs*

The figures given here in relation to the private sector exports, are often inclusive of the exports made to Thailand by Sri Lankan businessmen as well. Taking the year 1978 as the year in which a steady flow of gems between Sri Lanka and Thailand had begun, it may be observed that the Thai nationals who gradually made an entry to Sri Lanka, appear to have been initially operating their gem trade through legal means. This could be the reason for the gradual rise in export earnings upto 1981. However, though it was established that there were sales in 1982 equal to that in 1981 it does not appear that any of those gems had moved out of the country legally nor had such exports been recorded in the figures of exports to Thailand. (Table 9)

Though the figures for exports in 1981 show an increase of 161.1 percent over the figures for 1980, the year 1982 records a steep decline. In other words, the value of exports in 1982 had gone back to below 1980 levels. Export values recorded a decrease of 164.4 percent for the year 1982 compared to 1981. Considering the number of Thai nationals engaged in the

gem trade during the particular year, the decline indicates that a considerable amount of gems had gone out of this country through illegal channels.

When the question was asked why the State Gem Corporation could not arrest this ignominious trend at the very outset without letting it get out of hand, we were informed that officials firstly had to think of the international implications; and secondly, to consider the plight of the gemmers, the small gem traders and technicians too, who were benefitting from the increased level of business. If it was necessary, the State Gem Corporation could have rounded up all these Thai nationals and taken away all the gems held by them without a valid permit. Any person who wished to engage in the gem business needed a valid permit for the purpose, which should firstly have been obtained from the Corporation; and the gems could have been purchased only against such a permit. But, none of the Thai nationals held such permits. Since the Corporation did not take any steps on this problem till mid 1983 there was sufficient room for a proliferation of illegal activities in the gem industry.

State Gem Corporation in action

However, the Corporation was finally of the view that, since the practice of converting geudas into blue sapphires had been perfected in Bangkok, the demand for genuine local blue sapphires had begun to drop sharply and it could not be silent any more; therefore for the first time it was forced to focus its attention on this danger to the local industry. By this time, a large number of international gem businessmen who were in the habit of trading with Sri Lanka, had already begun to shift the focus of their trade to Bangkok. Another reason, why the Corporation did earlier turn a blind eye to this problem was that it did not bother to be interested in Thai nationals who were at the time busy buying only the geudas. But, subsequently once they moved on to the area of buying more valuable gems as well the Corporation had to move in. If Thai nationals were allowed to continue to buy the low quality gems or semi-precious stones (listed earlier), it would have caused hardships to the local gem businessmen who were authorised by the Corporation to trade in gems; this trend could not have been allowed to continue.

In the meantime, the local leading gem businessmen who were severely affected by the intrusion of Thai nationals, began to question the Corporation as to why it did not take steps to prevent the continuation of this state of affairs. These complaints reached as far as the highest echelons of the administration and the Corporation eventually had to take action on this matter. Accordingly, one day in May 1983 the Corporation officials raided all the business centres occupied by the Thai nationals resident in Ratnapura. In this operation, the Corporation was able to seize a large quantity of local and foreign currency, gem processing machinery and a large number of cut and uncut gems of high value. The geudas seized during the raid were valued at millions of rupees though they would have originally cost the Thais only a few thousand rupees.

This business of buying geudas at a low price and converting them into blue sapphires was contributing to the drop in the value of genuine blue sapphires in the international market. Thus, the government enforced a regulation with immediate effect limiting the validity of the visas of these Thai nationals to only 7 days the result was that the Thai gem businessmen resident both in Ratnapura and Colombo left the country.

Conclusion

As stated at the outset, the effects of the entry of Thai nationals into Sri Lanka's gem trade and industry were in some ways adverse and in other beneficial.

For several people in the gem mining areas of Ratnapura district the participation of Thai nationals in Sri Lanka's gem business was a windfall, as the Thais brought into prominence a vital resource which was hitherto hardly known in most quarters in Sri Lanka. There now seemed to be a new awakening among the people of these gem



A Gem Pit in Ratnapura area

mining areas as well as the whole gem trade in Sri Lanka.

The 'black market' and underground illegal business activities in the gem trade were resorted to by the Thai traders although such practices prevailed from the inception of the modern gem industry. What the Thai traders did was to further exploit this facility. The blame for the loss of Sri Lanka's wealth should not therefore be laid directly on only the Thais. To them must be granted the credit for having provided the opportunity to bring such activities into the open. Some sections even concede that the Thais have performed a great service for the country which had not been done by any Sri Lankans.

It has been further argued that it is the duty of the government and other related institutions of the country to take steps to arrest

all illegal activities whether they are carried on by Thais or any other persons. In the case of Gem trade in particular any such measures should not have been the cause of undue hardships for thousands of people in the gemming areas. If there were any attempts to rob the national wealth not mere administrative action but legal steps should have been taken to curb such trends; but the decisions in this area should not have been dependent on the whims and fancies and interests of a few businessmen.

Another important result that has emerged from this entire issue is that it has been realised that Sri Lankans must do their own treatment of geudas and the authorities were compelled to get down to this task with a greater urgency and today we have in Sri Lanka a public/private owned company now processing geudas. W.G.S..