Ethnic Networks, Extralegal Certainty, and Globalisation: Peering into the Diamond Industry

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 ETHNIC NETWORKS, EXTRALEgal CERTAINTY, AND GLOBALISATION: 
PEERING INTO THE DIAMOND INDUSTRY

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ABSTRACT

For nearly one millennium, the diamond industry’s distribution system remained largely unchanged. Ethnic networks, predominated by Jewish merchants, managed the downstream distribution system. Since state courts are unable to reliably enforce executory contracts for diamond sales, these networks succeeded because their community institutions were able to assert extralegal governance. But recent trends in the globalisation of commerce have introduced pressures that might cause the one thousand year-old system to unravel. Low-wage workers from India have displaced higher wage western merchants, consumer demands for political oversight has brought scrutiny to previously secretive networks, and the profitability of global branding campaigns has enabled DeBeers to implement a vertically integrated business strategy that skips the middlemen and sells directly to consumers. Since these pressures represent the paradigmatic forces of globalisation, examining changes in the diamond industry offers insights both into the future of ethnic exchange and into globalisation itself.

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INTRODUCTION

It is no small challenge to find legal certainty within transnational commerce, and the challenge becomes increasingly acute as commercial exchange becomes ever more globalised. One might expect, however, that the diamond industry would remain largely unaffected by this trend of globalisation. Because diamonds are easily portable, universally valuable, and virtually untraceable, state courts are incapable of enforcing executory contracts for diamond sales (Richman, 2004, 2006). In other words, the diamond industry has *never* enjoyed legal certainty. It instead has relied on extralegal certainty—a non-state system of contract enforcement that rests on personal exchange and reputation mechanisms. What then does globalisation mean for diamond merchants?

In fact, globalisation has had, and is having, a striking impact on the diamond industry, and the millennia-old distribution system that relied on multiple layers of personal exchange is showing cracks, or growth marks, depending on the perspective. This chapter explores how globalisation has affected the diamond industry’s distribution networks, and some extrapolation might inform how globalisation affects not just legal certainty but even a well-developed system of extralegal certainty. As increasing transnational commerce pushes most industries away from state-sponsored law and towards new forms of private ordering (Applebaum, et al 2001), the changing diamond industry can offer insights not only into how globalisation is affecting networks relying on extralegal enforcement, but also into globalisation itself.
BACKGROUND—THE DIAMOND SUPPLY CHAIN, GLOBAL NETWORKS, AND THE ECONOMICS OF CUTTING AND SORTING

The journey for most diamonds begins in African, Russian, Australian, and Canadian mines. Approximately 65 per cent of rough diamond production is controlled by DeBeers, either through direct ownership or long-term exclusive buying contracts, and DeBeers distributes rough stones through its Diamond Trading Company (or DTC, formally known as the Central Selling Organisation, or CSO) in London. The DTC sells the stones in presorted boxes, with take-it-or-leave-it price offers, to approximately 100 specific merchants known as ‘sightholders’. The DTC’s centralised distribution system enables DeBeers to control global supply and quality, and consequently diamond prices have remained remarkably stable compared to other commodities (Spar, 2006).

From this small collection of sightholders, diamonds descend into a thick web of intermediaries and slowly make their way down the supply chain to jewellery manufacturers (rough diamonds not controlled by DeBeers, and sold directly from mines, descend into the same distribution network). Sightholders and other players atop the distribution pyramid sell parcels of their rough diamonds to individual dealers, who in turn resell smaller parcels to other dealers. For many stones, and for approximately 80 per cent of the DTC diamonds, the second round of transactions take place in Antwerp, at its four large diamond bourses, and from there diamond dealers disperse to sell their stones throughout the world.

The primary activity in diamond distribution is sorting. Diamond dealers atop the distribution pyramid (a profitable location to occupy) have comparatively large inventories, and they sell parcels of gradually declining size to downstream dealers. The
sorting process goes hand-in-hand with the process of cutting, or polishing, which converts opaque rough diamonds into gem-quality diamonds for retail. Some Antwerp merchants arrange for polishing the stones themselves, and many others sell rough diamonds to other dealers, who then orchestrate cutting India, China, Israel, New York, and other locations. Many merchants also use brokers, who work on small commissions, to assist these sales and find the best price for a given stone. Parcels are sold and resold, stones are cut and recut, and gradually they make their way to jewellery manufacturers for commercial sale.

The process of sorting and cutting adds significant value to the stones—the total value of diamonds in retail jewellery is approximately 75 per cent more than the value of mined stones. Since there is little retail demand for uncut diamonds, it is clear that cutting and polishing stones for jewellery manufacturing adds value. But cutting raw diamonds is not a commoditised process, like refining oil into usable gasoline. It is both an art and a science. With the exception of cutting very small stones, which can be cut in large quantities through an industrial process, diamond cutting is done by hand. A cutter sits before a spinning grinding wheel and carefully applies the stone to the wheel. Though diamond cutting is a skilled occupation (there are cutting schools, run by ‘master cutters’, in several diamond centres throughout the world), the requisite skills vary significantly. Cutting small stones of relatively little value, for example, requires far less training and specialised skills than cutting large diamonds with few flaws. Accordingly, cutting factories vary significantly in the prices they charge, the labour they employ, and the wages they pay.
A good amount of value is also created through the nuanced process of matching individual stones with the manufacturers and retailers who value them highly. Diamonds, especially high-end stones, feature subtle differences—beyond the standard qualities reflected in grading for the 4Cs—colour, cut, carat, and clarity—that translate into significant variation in manufacturers’ willingness to pay. Accordingly, the objective of the distribution chain is to find the optimal buyer for the individual stone, and the middlemen who can find the optimal match can secure a substantial profit. The process requires synthesising significant market information with inventory availability—hustling to know what sellers have and what buyers want. Like most open exchanges—including stock exchanges—that facilitate transactions between sellers and buyers, the matching process is significantly aided by organising trading in centralised locations, so most matching occurs at the 25 diamond bourses located in the world’s major diamond markets.

One of the most distinguishing features of the downstream distribution network is the historical predominance of Jewish merchants. Jewish merchants enjoyed a virtual monopoly of Europe’s diamond market for several centuries, reaching back as early as the late 15th century, when Jews escaping the Spanish Inquisition set up the world’s largest diamond market in Amsterdam. Jewish merchants also dominated the German market in the 17th century, England’s early diamond trading with India in the 18th century, and the DeBeers syndicate in the 20th century. Jewish merchants remained deeply active in the 20th century’s downstream markets of cutting, polishing, and brokering diamonds and developed major diamond centres in New York, Antwerp, and Tel Aviv (Grayzel, 1968; Baron, et al 1975; Richman, 2006). I have argued previously
that the community ties that bond Jewish diamond merchants to each other give the community’s merchants a comparative advantage over non-members. Core community institutions provide Jewish merchants with a reliable private contractual enforcement and enable Jewish merchants to commit credibly to credit sales (Richman, 2004, 2006).

In sum, the distribution chain collects uncut stones in London and Antwerp and matches them with high-valuing jewellery manufacturers located throughout the world. In the process, stones pass through the hands of several middlemen—cutters, brokers, and dealers—to find the ultimate buyer. Each middleman profits from each transaction—cutters are paid for their services, brokers earn commissions on sales, and dealers profit by mark ups—so the ultimate objective is to maximise the value created by an optimal match while minimising the required cutting and sorting costs of doing so. This pyramidal distribution system, with monopolist DeBeers sitting at the top, has been in place and remained largely unchanged since Cecil Rhodes founded the company in 1880. And for centuries, including long before DeBeers controlled global supply, diamonds relied on an army of middlemen to reach the world’s buyers. Until the entry by relative newcomers in the 1980s, this distribution system was dominated by Jewish merchants.

ENTER INDIA

Perhaps the most significant feature of economic globalisation has been the entry of low-wage labourers in developing countries into the labour market for producing goods that are marketed in developed economies. This has occurred in the diamond industry with tremendous force as India has become a major centre for diamond cutting, and in doing so it has transformed the diamond global distribution network.
India’s recent entry into modern diamond production has by no means been the country’s first encounter with the diamond industry. To the contrary, the Indian subcontinent was from 800 BC, the time of the first diamond discoveries on record, until 1844, when diamonds were discovered in Brazil, the world’s only source of diamonds. During the height of India’s diamond production period, in the late 1600s, approximately 50,000 to 100,000 carats were extracted annually from India’s deposits.\(^1\) India’s rich past in diamonds is also reflected in many elements of Indian culture. Early Sanskrit manuscripts contain numerous references to diamonds, including elaborate descriptions of precious gemstones and associations with mythical figures at the foundation of Hinduism, and as Hindu symbols were incorporated into Buddhism, the diamond became a Buddhist symbol of religious virtue.\(^2\) Diamonds have also played a role in India’s caste system, as the different castes were only permitted to own diamonds of a specific colour—Brahmins wore white, merchants wore yellow, lower classes wore gray, and only kings could possess diamonds of all colours.

Since the discoveries in African mines in the late 19\(^{th}\) century, India’s contribution to the world’s diamond production has been extremely small, leaving control of the diamond market to DeBeers and the diamond merchants, mostly Jewish and Belgian, who controlled the downstream distribution chain. But India’s history and

\(^1\) Indian mines have also produced some of the world’s most famous diamonds, including the Koh-i-Nur, which was the object of tribal battles from 1304 through 1850, when the East India Company presented it to Queen Victoria (it later adorned the crown worn by Queens Alexandria, Mary, and Elizabeth), and the Hope Diamond, which was purchased by King Louis XIV, stolen during the French Revolution, and eventually repurchased by Harry Winston who donated it to the Smithsonian.

\(^2\) The Ratnapariksa, a 6\(^{th}\) century text on gems by Buddha Bhatta, noted ‘He who, having pure body, always carries a diamond with sharp points, without blemish, free from all faults; that one, as long as he lives, knows each day will bear some things: happiness, prosperity, children, riches, grain, cows and meat. He who wears [such] a diamond will see dangers recede from him whether he be threatened by serpents, fire, poison, sickness, thieves, flood or evil spirits.’
familiarity with gemstones permitted a reemergence in the 1980s. For centuries, the Jains of Palanpur, a religious minority from a parched, dusty village in Northern Gujarat, served as India’s diamontaires and harvested a centuries-old tradition for diamond cutting and polishing. The community maintained the tacit skills required for cutting and polishing diamonds even while India’s role in the industry receded—before India’s diamond boom, Palanpuris owned and operated small cutting workshops even as they remained unconnected to the global market that was dominated by cutters in Israel and Antwerp. Then certain entrepreneurial Palanpuris sought to exploit their community’s rich history and deeply-rooted expertise with diamonds. They turned to the master craftsmen in their home villages and asked them to guide large-scale cutting operations. Led by this home-grown and hard-to-replicate expertise, comparatively low labour costs, and a global family network, the Palanpuris’ cutting operations quickly made India a leader in the diamond industry. Today, nine out of ten diamond purchased annually are polished in India, Mumbai is home to an active bourse, Palanpuri diamond entrepreneurs are among the nation’s wealthiest, and thousands of cutting factories, employing over 700,000 Indians, populate nearby Gujarat province.

This is a classic instance of globalisation, where the size of the global market for a good (in contrast to the national or regional market) dramatically heightens the value of certain skills or assets. In many respects, India’s Palanpuri diamond cutters present the paradigmatic case of globalisation’s success story—a small community in a remote

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3 One of India’s foremost business journalists remarked, ‘Ordinary people cannot understand how a handful of families, all belonging to one small community—Palanpuri Jains—have become so rich, so quickly.’ (Piramal 1990). India’s successful Palanpuri families include Vijay and Bharat Shah, college dropouts who now operate one of India’s largest corporate empires. Their interests include operating construction companies and directing one of Bollywood’s largest movie production companies.
location is able to exploit its unique skills to reap fortunes in the global marketplace. The inevitable flip side is paradigmatic as well, and the Palanpuris’ success has come at the expense of higher-wage cutters in the West. In fact, the Palanpuri cost advantages are so significant, and their entry into the market has been so large, that they have sufficiently disrupted the global distribution network to have transformed the face of the industry. Antwerp is now much less of a haven for wealthy Jewish merchants, while becoming home to a very substantial Indian community, and Israel’s cutting industry has been in steady decline. Indian diamontaires have also become deeply embedded in New York’s diamond market, with an Indian merchant recently getting elected to the board of New York’s diamond bourse. India’s success in diamond cutting has fueled further globalisation, as many diamond dealers have opened cutting factories in low-wage countries in Eastern Europe and Southeast Asia.

India’s diamond success also offers some generalisable insights into commercial globalisation. Relational exchange—exchange, such as ethnic exchange, that relies on the familiarity that commercial parties have with each other—is in many respects deemed to be inferior to systems of arms-length transactions and impersonal exchange. Personal exchange limits entry only to those whom are familiar to trading partners, keeping out the market dynamism introduced by low-cost or innovative entrepreneurs, and such familiarity requirements also impose limits on the size and breadth that trading networks can achieve. For these reasons, scholars have explained that public courts and impersonal exchange have gradually replaced and supplanted systems that rely on private ordering (Greif, 2006a). The Palanpuris’ success, however, reveals that ethnic trading networks can flourish in a globalising economy. And the Palanpuris are not alone—it is
well-documented that the wildly successful Chinese ethnic trading networks, for example, continue to capitalise on extralegal certainty to organise transnational commerce in Southeast Asia (Landa, 1999). Palanpuri success and the success of other ethnic trading networks illustrate that ethnic networks continue to occupy an important place in the modern global economy.

But a stronger point can be made. Commercial networks that can succeed in an industry like the diamond market, where routine transactions are beyond the reach of public courts and require extralegal enforcement, are strongly suited to excel in global exchange since cross-national transactions are also routinely difficult to enforce. The Palanpuris’ centuries-old experience with diamonds transactions, which were always imbued with legal uncertainty, prepared them for the legal uncertainty in transnational exchange. Since Palanpuris were adept at domestic extralegal commerce, they were well-equipped for international extralegal commerce. It is nonetheless ironic that trading practices that rest upon ancient family or ethnic traditions—thought to have been replaced by sophisticated government institutions—can suddenly offer an advantage in the ever-modernising global economy.

However, even with its advantages, relational exchange has limits, and continued globalisation will pose a severe test to the durability of the diamond industry’s ethnic networks. Since reputation-based exchange works only with familiarity, relational networks will fail when their expansions dilute the intimacy the members share. Economic history contains many illustrations of reputation-based systems of contractual enforcement that became victims of their own success—transactional credibility broke down when parties were sufficiently unfamiliar that they could (and did) misrepresent
themselves as reliable, long-term commercial partners (Greif, 2006b). If the diamond market continues to expand, the relational constraints of diamond networks might fail to match the growth, and diamond merchants might have to find alternative systems to organise distribution.\(^4\)

Globalisation’s invitation to ethnic-based exchange invites other challenges as well. Just as Palanpuri diamontiares found themselves capable of succeeding in the international marketplace, other ethnic networks that have excelled in transnational trade found themselves well-positioned to thrive in the diamond industry. For example, the Palanpuris have been joined by other ethnic networks, including some recent entrants who sensed that ethnic connections offer a competitive advantage in the industry (Richman, 2006). This presents one of globalisation’s more interesting challenges: how members of different ethnic networks can engage in commerce—and enforce contracts—with each other. If each member is beyond the reach of public courts, and thus can only be disciplined by other members of his/her network, then extralegal methods are required to secure transactions between parties from different relational circles. Theoretically, communities will be incentivised to police their own members in trade with other groups. If a community’s members are deemed to be credible business partners for merchants from all groups, then the business opportunities for each member expands and the community as a whole will benefit (Greif, 2004). Putting this into practice, however, will require substantial political resolve within each community, and coordinating

\(^4\) Diamond merchants who are most likely to feel the limits of personal exchange are those with limited family networks. One Indian dealer lamented, ‘This business demands personal attention and trust. Only your family can give you both. I have remained a small diamond exporter because I do not have a brother whom I can send to live in Antwerp.’ (Piramal 1990).
transactional assurance becomes harder as each trading community grows and familiarity inevitably decreases.

Still, diamond centres such as Antwerp and New York have successfully organised cross-community exchange despite the substantial transaction costs, and many different ethnic networks succeed internationally. Ethnic networks might be ideally suited to enter and prosper in global exchange, but since they cannot rest on institutional supports, and instead must police exchange and compel contractual compliance on their own, they might be vulnerable to strain as globalisation moves forward.

**ENTER ANGOLA, AND DEMAND FOR INTERNATIONAL REGULATION**

Globalisation has also meant the entry of diamond merchants of a very different kind. Rebel movements and warlords in war-torn African nations, such as Angola, Sierra Leone, and the Ivory Coast, have exploited diamond mines in their countries to fuel their bloody campaigns. The diamond’s immutable qualities make it the smuggler’s and guerrilla’s currency of choice.

Turning a blind eye to the unpleasant origins of a product that is marketed to affluent consumers in developed nations might also be a central feature of globalised commerce. Salient examples include sweatshops manufacturing designer clothing, children forgoing school to assemble athletic equipment, and natural resource exploration that pollutes farmland and natural habitats (Spar and La Mure, 2003). Stark inequalities in both wages and purchasing habits between the developing and developed worlds create tremendous incentives to produce in the former and sell in the latter. This understandably
fuels the growing separation of a product’s origins from its ultimate consumer (Kysar, 2004; Friedman, 2005).

But this separation creates a particularly acute danger for the diamond industry. Diamonds are marketed, with remarkable success, as timeless ornaments to signify important emotional events—the sort of product that would be quickly spoiled if associated with a brutal warlord. The possibility that the purchase of the engagement ring heirloom might sponsor bloody civil strife threatened the core of the industry’s highly successful advertising efforts and attacked the root of a diamond’s romantic appeal. It became a grave concern for the entire industry.

However, an easy solution is not obvious. Because the structure of the diamond industry’s distribution network relies on many layers of middlemen, and because of diamond’s essential features, tracing a diamond’s origins is profoundly more difficult than following other goods, such as designer apparel manufactured by sweatshop labour. Consequently, the industry for many decades turned a blind eye to the ugly origins of much of its product. Diamond dealer networks have long operated in Africa and purchased diamonds from military warlords. Those ‘conflict diamonds’ then were funneled to Antwerp and other diamond centres and mixed in with diamonds from less controversial sources. The independence and multitude of the diamond dealers, the industry’s lack of vertical integration, and the inability to trace a diamond’s origins made prohibiting and policing such diamond sales extremely difficult.

But the threat to global demand was too severe to ignore, particularly as NGOs and social activists—Global Witness in the lead—organised a highly effective media campaign. The industry, led by DeBeers, was compelled to develop a sweeping response.
The end solution arrived in 2002 with the creation of the Kimberley Process, a vast international program to certify the origin of each diamond and to prohibit trade with countries that could not confirm that their diamond exports did not finance entities seeking to overthrow a UN-recognized government. The Kimberley Process requires that each international shipment of rough diamonds must be transported in a tamper-resistant container and accompanied by a government-verified certificate that indicates the origin of each stone. The importing state’s customs must then confirm that the contents of the shipment are in accord with the certificate, and each individual who thereafter handles the stone is obligated to maintain the identity tag. Though enforcement, the integrity of the certifications, and the overall effectiveness of the Kimberley Process remain unknown and are a matter for ongoing debate, in theory it provides jewellery manufacturers, reflecting the interests of engagement ring purchasers and other romantics, proof that the diamonds they purchase come from wholesome origins. Peddlers of conflict diamonds should have much greater difficulty finding buyers, and conflict diamonds should have greater difficulty slipping into the mainstream pipeline.

For a number of reasons, DeBeers’s cooperation with global activists demanding restraints on industry leaders is self-explanatory. It reduced production and aided DeBeers’s ongoing efforts to control global supply; it cleansed DeBeers’s brand name of very sordid associations (though DeBeers has quite a chequered history of its own); and it created a global infrastructure that adds highly valued assurance to diamond purchasers. But it also represents DeBeers’s adjustment to the politics of globalisation and its willingness to become a partner in an increasingly typical political manoeuvre.
The lack of public governance in global exchange has prompted a rise in what some have called ‘private governance’ (Mayer and Gereffi, 2006). Private governance includes self-regulation by multinational corporations, codes of conduct promulgated by international organisations and trade associations, and consumer standards—including the famous ‘fair trade’ movement—that impose minimum labour or production standards. It is not unprecedented, nor is it unreasonable, for for-profit corporations to join those demanding private governance and collaborate with social activists to bring reform—such cooperation was been dubbed ‘the NGO-industrial complex’ (Gereffi, et al 2001).

But this sort of international scrutiny and regulation is quite new to the diamond industry even though, unlike other industries that have only recently globalised, international distribution networks had always been required to bring diamonds from mines to jewellery stores. The globalisation of industries such as textiles and chemicals prompted consumer alarm and the mobilisation of international private governance because the internationalisation of those industries meant less legal and political oversight. The diamond industry, in contrast, was always globalised and had received relatively little scrutiny (despite brutal treatment of workers in diamond mines, poor labour relations in many cutting factories, and, of course, the prevalence of conflict diamonds). Thus, the politics of globalisation has meant something very different to the diamond industry. Ironically, globalisation has meant the involvement of more, not less, consumer regulation and political scrutiny.

What lessons can be drawn from the diamond industry’s experience with the politics of globalisation? Prior to the swell of globalisation, the diamond industry seemed to avoid the scrutiny it probably deserved. Just as its transactions remained beyond the
reach of public courts, the industry’s practices remained largely beyond the attention of social activists and constituencies that demand regulatory oversight. These parallel trends of nesting outside the public arena are interconnected. Since the industry was forced to rely on self-governance to police transactions and enforce contracts, it assumed a self-regulatory governance structure that distrusted outsiders and demanded regulatory autonomy. But when globalisation enabled MNCs to escape the regulation of the industrialised democracies, the political backlash fueled scrutiny towards all MNCs active in the developing world, and that included DeBeers. In short, the general lawlessness of globalisation has meant the end to lawlessness in the diamond industry.

**ENTER LOUIS VUITTON, AND THE POWER OF BRANDS**

In 2000, DeBeers launched its own ‘Millennium’ diamond, limited edition stones of the highest quality, of substantial size, and with a microscopic laser-inscribed DeBeers ‘centenary logo’ etched along the side (each Millennium diamond came with its own viewing lens, certificate of assurance from De Beers, and a time capsule). Later that year, DeBeers announced a plan to market ‘designer diamonds’ with unusual shapes and sizes, with promises that each stone exhibits top grades in colour and clarity. And, in January 2001, DeBeers created a joint venture with LVMH Moet Hennessy Louis Vuitton, a leader and trend setter in the luxury goods market, to create a network of own-brand stores that would sell, under the DeBeers brand, exclusive lines of diamonds (Handleman, 2000; Weber, 2001). These initiatives—the first to bring the company towards the retail market—were in response to several years of declining DeBeers market
share, a sense that DeBeers was not fully capturing the value from its brand name, and a decision to execute a change in corporate strategy (Spar, 2006).

Though DeBeers’s strategic initiatives have garnered complimentary press coverage, the business world has yet to appreciate how dramatic this departure is from past practices. For years, DeBeers’s focus on wholesale distribution was explained by the transaction costs of ‘block booking’. A famous paper by Roy Kenny and Benjamin Klein observed that for goods that varied significantly in quality but required substantial measurement costs to evaluate quality, transaction costs are economised when the good is sold in bundles in which the price for each individual item is the average price. Thus, block booking would economise on oversearching and make productive use of items of below-average quality (Kenny and Klein, 1983). The Kenny and Klein explanation has been the most generally accepted understanding of DeBeers’s operations (Hanssen, 2000). It explains both DeBeers’s unusual distribution methods—selling presorted bundles to individual sightholders, sight unseen—and DeBeers’s decision to remain atop the distribution system as a wholesaler without vertically integrating downstream.

But with the DeBeers-LVMH joint venture, Kenny and Klein’s explanation no longer applies. Somehow, DeBeers now finds value in integrating downward into the retail market. It also means that DeBeers, in dealing directly with the ultimate consumer, is bypassing the many layers of middlemen, who had organised the industry’s distribution system for nearly one millennium.

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5 DeBeers’s declining market share was largely attributable to the opening of new diamond mines, including large finds in Canada and Australia that did not sell through DeBeers’s DTC, and the periodic departures by Alrosa, Russia’s large mining operation, from the DeBeers cartel.
It is possible that DeBeers’s moves are products of new technologies. Perhaps the art of diamond cutting has been refined such that DeBeers can credibly claim that all of its hallmarked stones achieve a certain quality. If DeBeers can now produce homogeneous branded diamonds, but was previously unable to, then the branded effort obviates the requisite search and inspection costs in diamond sales; i.e. whereas before diamond buyers needed to inspect each stone carefully, now they might trust DeBeers. A second explanation points to technological developments of a different sort. Perhaps the internet, and the rising facility to share information, has offered low-cost replacements for the army of middlemen. If a major value-added activity these middlemen—a swarm of aggressive brokers and resellers who gobble and relay market information on available inventories and the particularities of demand—was to match individual diamonds with optimal buyers, then a branding campaign would obviate this as well. The DeBeers brand would reflect known characteristics, and buyers in demand for stones of that kind can purchase them directly from the manufacturer.\footnote{These developments in information technology also suggest that internet sites could similarly create a forum of information exchange and create virtual diamond exchanges, thus further obviating the role of middlemen. In fact, several such internet brokerages have emerged, featuring an inventory of diamond with GIA-certified features and high-resolution pictures. By some measures, internet sales are growing and have already achieved 15% of all U.S. sales, but many remain skeptical that internet pictures will erode the perceived need to personally inspect a diamond before purchase (Berger, 2001; Rozhon, 2005).} A third explanation is the simplest, that DeBeers is losing global market share and now has to compete more vigorously against other suppliers, and its competitive advantage over other mines is its name recognition. Whereas before, DeBeers invested in advertising for the entire industry—its ‘Diamonds are Forever’ campaign, in addition to being hailed by Advertising Age as the slogan of the century, marketed all diamonds, not just DeBeers diamonds—now it also
advertises its own wares. Capitalising on its brand name in the retail market might simply be the competitive response of a former monopolist.

But DeBeers’s transformation might also shed insight into the economics of globalisation. Previously, DeBeers stood atop the distribution chain and relied on ethnic networks to disperse diamonds to local markets. With globalisation’s convergence of regional markets, the effect of branding is magnified. A unifying global market decreases the likelihood of brand confusion, increased communication extends the reach of brand marketing, and improved brand recognition enables brand holders to build and capitalise on quality reputation. One might also argue that if globalisation has lead to a homogenisation of preferences for luxury goods, DeBeers’s offering of specific designer stones might, despite the limited variation, meet the demands of the high-end market as it never could before.

Though it is too early to determine whether DeBeers’s strategy will be successful, the significance of its reorientation for the rest of the industry cannot be understated. With its focus on its brand name, DeBeers is using a vertical integration strategy to supplant the trust-based exchange that for generations has been organised by ethnic networks.

CONCLUSION

The diamond industry’s distribution system had remained intact and relatively stable for nearly one millennium. It emerged long before the DeBeers cartel arrived, and it has survived technological booms, continental wars, and economic shocks of every sort. But it is now threatened by certain forces of globalisation. Globalisation has meant entry by
low-wage ethnic groups that have displaced incumbent Jewish merchants, who had long
dominated the downstream market. It has brought political scrutiny to an industry that
previously enjoyed secrecy, autonomy, and lawlessness. And it has enabled DeBeers to
pursue marketing strategies that skip over the middleman. These developments might
mean the end of 1,000 years of Jewish predominance.

But watching the diamond industry change with globalisation also yields insights
into globalisation itself. The lawlessness of transnational exchange means that ethnic
networks that have historically shunned public courts and have instead employed
extralegal mechanisms to enforce transactions are particularly well-suited to excel in the
globalised economy. The absence of public regulation to govern global commerce has
led to consumer-driven private governance, which ironically can reach and influence
secretive international networks, such as the diamond networks, much more than state-
sponsored regulation. And globalisation has changed the economics of brand names such
that branding strategies can now reach larger markets and exploit profit opportunities as
never before. De Beers’s recent ventures suggest that vertical integration strategies that
focus on maximizing value from brand reputations might offer a superior organisational
form than the historic use of multiple middlemen, personal reputations and trust-based
exchange.

The diamond industry, to be sure, is an unusual industry—few others can boast
features such as a predominance of ethnic networks, artificially created demand, the
rejection of sophisticated public courts in developed economies, and an organisational
structure that has remained largely unchanged for one millennium. But since ‘the study
of extreme instances often provides important leads to the essentials of the situation’
(Behavioral Sciences Subpanel, 1962; Williamson, 1999), peering into the diamond industry, with all its refractions and distortions, produces revealing insights on the legal, political, and economic challenges of the globalising world.
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