

## Review - Diamonds

Written by Yolande Kyngdon-McKay

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YOLANDE KYNGDON-MCKAY, JUN 5 2014

Diamonds

By: Ian Smillie

Cambridge: Polity Press, 2014

The diamond industry is a fascinating entity to examine. During its modern history (1869 to today), its members have been party to criminality, corruption, and bloody conflicts. Until recently, it accommodated the world's longest running and most successful cartel, which was headed by the diamond mining and marketing company De Beers. For much of its history, the De Beers cartel controlled >85% of the world's diamonds (Bergensstock 2004:15)—market power that enabled De Beers' leaders to inflate diamond prices above competitive levels and exploit the cartel's captive consumer base.

The diamond industry has also influenced the economic, political, and social development of many nation-states, thus rendering a solid comprehension of its history, structure, and operation vital to students and scholars of international relations. For example, the racist miner pass system instituted in Britain's Cape Colony by De Beers' founder, Cecil Rhodes, was the foundation of South Africa's Apartheid regime (Wheatcroft 1985). Diamonds are credited with making Botswana—home to some of the richest diamond deposits in the world—a beacon of economic hope in sub-Saharan Africa (Sarraf and Jiwanji 2001). Furthermore, De Beers knowingly funded bloody civil 'diamond wars' in Angola and Sierra Leone in the mid-1990s to early 2000s, leading some to argue that executives of the firm during this time should have been charged with war crimes (Saunders 2000).

As the passages above suggest, writing an entertaining book about the diamond industry is not a challenge; the scandalous stories about the industry are prolific enough to fill hundreds of pages and keep readers suitably enthralled. However, looking past the scandals to write a book about the industry that truly educates readers about its history, development, current operations, and future challenges is not so simple, or common, an undertaking.

Ian Smillie's *Diamonds* is his second book about the diamond industry. His first, *Blood on the Stone: Greed, Corruption and War in the Global Diamond Trade*, was largely an analysis of the diamond wars in Africa and the then-impending demise of the mechanism designed to halt the trade of conflict diamonds, the Kimberley Process Certification Scheme (KPCS). *Diamonds* does retread much of the ground covered in Smillie's first book. However, his additional insights into the failure of the KPCS and the developmental potential of diamonds are notably new, the former being where the book's key strengths lie.

*Diamonds* consists of eight chapters, the first two of which include an overview of the geology of diamond mines, De Beers' market control, and the industry's history. The blurb on the book's back cover states that it provides "a comprehensive analysis of the history and structure of today's diamond trade." This is an overstatement. Smillie touches only briefly upon several features of the industry's early history, including: the competitive production era of the 1870s-1880s; Cecil Rhodes' monopolization of diamond production in the Cape Colony and Orange Free State by the mid-1890s; Rhodes' death and the re-emergence of competition in the industry in the early 1900s; and the emergence of his most powerful successor, Ernest Oppenheimer, who became Chairman of De Beers in 1926 and cartelised the diamond industry by the mid-1930s. Aside from the diamond wars of the 1990s-2000s and the fall of the KPCS, Smillie's analysis of the industry's later history is also concise.

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### Botswana and Diamond-Fuelled Development

Perhaps due to its brevity, there are some significant omissions from the book's overview of the history of the diamond industry, one of the most notable of which occurs in chapter seven, where the developmental potential of diamonds is considered. Smillie points out that many diamond-producing states, particularly in Africa, are impoverished despite their rich natural resources, partly because of corruption and bad governance (p.143). He argues that these states can look to Botswana for 'best practice' guidelines on how to enable diamond-fuelled economic growth (p.144). In advocating the Botswana diamond development model, however, Smillie does not appear to be aware of the exposé published in Botswana's leading newspaper, *Sunday Standard*, in 2010. This series of explosive articles revealed how De Beers, from the 1960s to late 1990s, used Swiss bank accounts to secretly transfer millions of dollars to the government of Botswana, lead by the Botswana Democratic Party (BDP), to ensure its loyalty to the cartel (Sunday Standard Reporter 2010b). De Beers also loaned tens of thousands of dollars to the failing company of Botswana's then-President Ketumile Masire to ensure the BDP was re-elected in 1984 (Sunday Standard Reporter 2010a), and then paid hundreds of thousands of dollars to the same company in 1997 to ensure Masire resigned from the presidency when he became toxic to the party's re-election chances (Mokone and Mogapi 2010). Subsequently, De Beers engineered a succession plan that ensured Festus Mogae and Ian Khama, who were both strong supporters of De Beers, assumed the role of President and Vice-President, respectively (Mokone 2010).

Such a 'cosy' relationship between a mining company and a purportedly democratic diamond-producing state is not classifiable as 'best practice', and indeed can be said to exemplify bad governance. According to David Magang, Botswana's former Minister of Mineral Resources and Water Affairs (1994-1997), the unwillingness of Botswana's ministers to promote the state's interests above those of De Beers' was extraordinarily damaging to the development of the state's economy (Magang 2008). There is no question that diamonds have been vitally important to Botswana's economic development. However, Botswana's economy would likely be even stronger had its government not been in De Beers' pocket, and thus capable of serving Botswana's interests first—something Smillie should have acknowledged when lauding the state's growth. Nonetheless, his other suggestions for improving the balance sheets of impoverished diamond producing states, such as instituting impact benefit agreements (p.162) and lowering the costs of miner registration (p.157), are sensible ideas that have the potential to increase revenue from mining in these countries.

### Competition and the De Beers Cartel

Smillie peppers his overview of the diamond industry's early history with his own perspectives on its structure and operation. For example, he argues that the De Beers cartel, established by Ernest Oppenheimer and maintained by his successors into the 21<sup>st</sup> Century, 'saved' the diamond industry from myriad potential death knells, including economic downturns, wars (p.29), and competition that had the capacity to 'wreck' the industry (p.41). This is not an uncommon view (see Gregory 1962:229, Lenzen 1970:155, Rotberg 1988:182). However, it is too simplistic, for two reasons. Firstly, the inflated, rent-extracting prices enabled by the cartel did not always 'save' the industry from the impacts of market instability. During the Great Depression, for example, diamond imports actually fell to a greater degree than real national product in the industry's largest market, the United States, which contributed to the temporary closure of De Beers' diamond mines (Lenzen 1970:180, Kyngdon 2014:144). And secondly, Smillie's belief that competition would 'wreck' the diamond industry is borne of a naïve underestimation of the resilience of an established extractives market (which the diamond industry had prior to its monopolisation/cartelisation) and ignorance of the legitimate role of creative destruction in (competitive) markets (Dunne et al 1988).

If the diamond industry had been allowed to *remain* competitive, its early history suggests that the latent members of the production and marketing spheres would have sought to maximise their individual profits, and diamond prices would have been variable, in accordance with market fluctuations. During economic downturns, members of the competitive diamond industry would likely have lost their assets or a portion thereof, and/or been pushed out of the industry entirely. However, new actors would have subsequently entered the industry and replaced previous structures and expectations with new business philosophies that were more suited to the realities of the industry (see Schumpeter 1942, Olson 1982: Chapter 3). Thus, the diamond industry would not have been 'wrecked' by

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competition— it would have changed, evolving like any typical commodity market in which competition reigns.

That Smillie would effectively label the cartel the diamond industry's 'White Knight' is also peculiar, given his criticisms of the diamond wars. De Beers' decision to buy the conflict diamonds that threatened the cartel's control of the world's diamond supplies not only funded wars in Angola and Sierra Leone, but also harmed the reputation of the diamond industry for decades thereafter. It is hard to see how the cartel benefitted the industry in this instance. Moreover, cartels are notorious for the opacity, disorder, and apathy they impart on the industries they inhabit, long after they have themselves dissipated (Marshall and Marx 2012, Olson 1982). While Smillie laments the industry's opposition to transparency (p.92), and notes that its lack of regulation and oversight resulted in its easy criminalisation and empowered African warlords to exploit their natural resources for quick cash (p.67), he fails to link these unfortunate characteristics to the industry's history of harmful cartelisation.

### **Monopoly Capitalism?**

The source of Smillie's praise for the cartel is perhaps his belief that De Beers' leaders used the theory of monopoly capitalism to encourage the Soviet Union to join the cartel in the 1960s, after enormous diamond deposits were discovered in the region of Yakutia. This claim is not referenced (and I would love to see the original source), but Smillie nonetheless believes that the De Beers cartel was a textbook incarnation of this theory (p.29), which is based on the Marxian assumption that capital will accumulate in fewer and fewer hands until monopoly reigns. This will ultimately drive a revolutionary uprising from the have-nots and bring on the 'nirvana' of the dictatorship of the proletariat, thus signalling the demise of the capitalist model of production and trade. Smillie's monopoly capitalism argument is flawed, however, because it is based on two false assumptions: that market distortions in the diamond industry were driven by forces other than De Beers' leaders' desire to control supply and inflate prices in order to extract rents from captive consumers; and that De Beers' leaders were actively involved in, and advocating for, the demise of capitalism and the rise of the proletariat.

The hypothesis that De Beers was run by Marxists is, without question, unique. If Ernest Oppenheimer were alive today, it is likely that he would be quite amused. An alternative perspective is that it was the discretionary activities of De Beers' leaders, and not a metaphysical dialectic, that were driving the industry in that particular direction. The market structures De Beers' leaders were putting in place (monopoly and cartel) were designed for the long run, to enable the extraction of 'perpetual rents': optimised inflated profits that are sought for the long term. Successive De Beers leaders possessed this goal for over 100 years, and did everything in their power to see it realised (Kyngdon 2014). The potential for a dictatorship of the proletariat in no way influenced their decision-making.

### **The Diamond Wars and the KPCS**

The book's most valuable insights into the internal machinations of the diamond industry are contained in chapters three to six. Smillie's explanation of the diamond wars in Angola, Sierra Leone, and the Democratic Republic of the Congo (pp.43-64) serves as a good introduction to these conflicts and the role played by the diamond industry therein. The elucidation of his involvement in the initial investigations into the role of diamonds in the conflict in Sierra Leone, with the organization Partnership Africa Canada (PAC), is arguably the book's most important contribution to the discourse on the diamond wars. Smillie provides detailed insights into the lead-up to the civil society, regulatory, and industry responses to the trade in conflict diamonds, illustrating how diamonds were originally simply shipped to trading and manufacturing hubs around the world with little regard for their country of origin. His description of the oftentimes bumbling and disorganised origins of the KPCS is a cringeworthy read, which bluntly details the challenges of coordinating a multilateral response to an international crisis amongst self-interested nation-states. The insights of this chapter are not common knowledge, and give notable context to the failure of the KPCS several years later.

The operation of the KPCS is detailed in chapter five. It is a strong source of information about this institution, and explains why its simplicity was initially a blessing, but eventually a curse. Chapter six is structured around vignettes that detail the initial successes of the KPCS in ensuring the compliance of member states, and its eventual failure to counteract many of the compliance problems that have enabled the ongoing trade in conflict diamonds. It also

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explains how serious human rights abuses in diamond-producing countries not experiencing civil war initiated the call for the inclusion of the protection of human rights in the KPCS's mandate. Smillie illustrates why these demands were a bridge too far for an institution that was already struggling to fulfill its only objective, and appeared content to ignore non-compliance in favour of promoting an outward image of internal harmony. This is once again inside knowledge that is vital to properly comprehending the demise of the KPCS.

### Conclusion

Smillie's proximity to the civil society and regulatory responses to the diamond wars of the mid-1990s to early 2000s is *Diamonds* most notable asset, making it recommended reading for anyone studying, or interested in, conflict diamonds. It must be said that the book does follow the well-worn path of rehashing many of the most scandalous anecdotes about leading figures in the diamond industry. This would have been perfectly acceptable and, indeed, thoroughly entertaining had Smillie also fully and critically reviewed the history of the industry. But he did not, and as a consequence, this book suffers from many significant knowledge gaps. As such, it cannot assist readers to truly understand the diamond industry. For a book to achieve this feat, it must comprehensively examine the history of the modern diamond industry, its past and present market structures, and what motivated its most powerful actors to pursue their ultimate goals using the methods they chose. This information would assist readers to understand why and how the diamond industry developed the way it did. Most significantly to the book under review, it would help to explain why the diamond industry was all but incapable of responding to the conflict diamond crisis in a timely and coherent manner, and why its future ethical challenges will also oftentimes seem insurmountable.

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