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A Note on the Gold Markets of Southeast Asia and the Middle East

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A Note on the Gold Markets of Southeast Asia and the Middle East

A complete survey of the gold trade in Southeast Asia and the Middle East is impossible to accomplish since smuggling plays an important role in the distribution of the metal, and comprehensive statistics are not available covering supplies, movements, sales and uses of gold. Statistics that are available are often of poor quality with reciprocal data generally difficult or impossible to reconcile. Despite these shortcomings, this note considers as far as possible the known supplies of gold to the main distributing centers, the characteristics of the markets themselves, price relationships between markets, industrial uses, and motives behind the demand for gold in these geographic areas. It does not cover the associated foreign exchange markets and touches only lightly on the methods of financing the illegal gold traffic.

Gold production is not covered in this paper, but London's role as the major market and distributing center stems from the flow of newly mined South African gold--practically all of which, until recently, was handled by the Bank of England and the bullion dealers in the London market. Since South Africa produces in excess of 75 per cent of world gold production (excluding the U.S.S.R. and Mainland China) and gold produced by Australia, Ghana and Rhodesia is or was similarly handled in London, its importance as the primary market can be readily understood.

The paucity of information on the Swiss market precludes discussing Switzerland entirely objectively as a distributing center; the only available statistics are reciprocal in that a few countries show exports to, or imports from, Switzerland. Zurich's importance is, however, undoubted: consignments of gold to it from the London market have totaled rather more than $4 billion[1/] over the years 1960-69 and, in addition, some gold purchased by Swiss institutions may have been held in safe custody in London--such acquisitions do not appear in the available data.

It is still rather early to assess accurately the impact on the markets of Southeast Asia and the Middle East of the two-tier price system which was adopted by a few leading countries in mid-March 1968. The subsequent higher prices in the European centers have certainly been reflected in dealings in Southeast Asia and the Middle East, but only in Bangkok and Karachi was the amount of price rise anywhere near that in London. Margins between London prices and those in the centers in these areas generally decreased, but the pattern was not uniform. Indications are that the volume of gold traffic declined, although it remains substantial; but this decline may be only a temporary feature as dealers pause to assess future marketing and price developments.

1/ Throughout this note, valuations are made on the basis of $35 a fine ounce.

Although in the months following March 1968 there was some diversion of newly mined South African gold to other markets, e.g., Zurich, it may well be that the agreement, approved by the International Monetary Fund toward the end of December 1969 under which South Africa may sell gold to the Fund subject to certain economic conditions, may well prove to be of far-reaching importance to the industrial gold markets of the world since it diverts into monetary reserves a large amount of metal which formerly satisfied industrial and ornamental demand. Sustained demand and diminishing supply could, however, force up prices and bring supplies of South African gold directly onto the commercial markets once again. Until such time as demand completely outstrips production, the recent agreement between the Fund and South Africa should prove to be a most useful price stabilizing factor.

I. Summary

There has been a regular flow of gold to Southeast Asia from the United Kingdom (sometimes through Switzerland), Australia, and Canada. This gold is distributed mainly through Hong Kong, Singapore, and Vientiane largely by smuggling. Among the markets served are those in Burma, Cambodia, Ceylon, Indonesia, Japan, Taiwan, Thailand and Viet-Nam. In these countries there is a long tradition of using gold by industry (including jewelry), and ownership by private persons. Gold plays an important role in both religious and civil ceremony. A number of countries in Southeast Asia have Buddhist majorities, and the use of gold is particularly prominent in decoration of Buddhist temples, for personal ornament, and as a medium for making donations. In many countries in which the dealing in and holding of bar gold by private persons is prohibited, there are no restrictions on the manufacture and trade in jewelry, and gold in this form is often held as a means of saving and as evidence of social standing.

Until March 1968 the main market supplying gold to the Middle East was London. Exports were made either directly to the countries in which buying originated or to distributing centers such as Zurich and Beirut. Since the introduction of the two-tier price system, Zurich has increased in relative importance as a distributing center, though just how much is difficult to judge. Oil producing countries of the Middle East are among those to which large consignments of gold are made, and private buying of small bars, coins and jewelry has increased substantially in recent years. The statistics on physical gold flow shown in Table 1 do not include substantial purchases in London and Zurich which continue to be held there by the purchaser in safe custody.

The known physical movement of gold to Southeast Asia and the Middle East expanded sharply from the first half of the 1960's to the second half. As Table 1 shows, London was the principal source of the flow and its relative importance increased during the decade. The flow to the Middle East appears to have been nearly twice as large as that to Southeast Asia.

Table 1. Gold Movement to Southeast Asia and the Middle East

(In millions of U.S. dollars)

From	To Southeast Asia		To the Middle East	
	Five-Year Period			
	1960-64	1965-69	1960-64	1965-69
London	129	608	587	1,035
Other1/	162	152	225	224
All sources	291	760	812	1,259
Average per year	58	152	162	252

1/ Other sources were principally Australia and Canada for Southeast Asia, and Switzerland for the Middle East.

Note: Above figures represent only physical movements, and do not include amounts purchased in London or Zurich but left there for safe custody.

In addition to the reported movements, there are known to be illegal movements of gold into the Indian subcontinent, mainly from the Middle East but also from other Asian markets. The prices in the markets of India and Pakistan are extremely attractive to this trade. Steps have been taken by the authorities in India to reduce private gold demand by discouraging traditional uses of the metal; if effective, these could ultimately lower gold prices in Bombay and thus reduce the illegal traffic.

II. The Movement of Gold to Southeast Asia

The pattern of the gold trade in Southeast Asia is set out in Chart 1. Demand for gold is met mainly by supplies from the United Kingdom, Australia and Canada; Switzerland is also a supplier, but until mid-1968 it covered its sales largely elsewhere, normally in the London market. There are three main centers from which gold is redistributed--Hong Kong, Singapore, and, more recently, Vientiane (Laos).

1. Distribution through Hong Kong

Of these three distributing centers, Hong Kong is perhaps the pre-eminent. Prior to the Communist takeover in Mainland China, traders in Hong Kong handled the gold which passed into that country. Hong Kong's present importance in the gold trade relates back to a government regulation of October 1953 which authorizes residents to import gold for purposes of re-export, provided that re-exports comply with import controls of the country to which they are being consigned. Nonresidents of Hong Kong are allowed to transship gold to any destination. Historically, the growth of Hong Kong's pre-eminence in this field is related to its geographical location, its deep sea harbor and its airfield. Hong Kong's importance has, however, been maintained and enhanced by its well-developed financial facilities with their worldwide network of correspondents, its free market in foreign currencies (particularly in U.S. dollars), and its well-coordinated international commercial contacts. Legal and illegal operators in gold carry on their business in this multiracial financial center through close family and business connections with the countries of Southeast Asia.

Table 2. Hong Kong - Gold Imports and Re-Exports

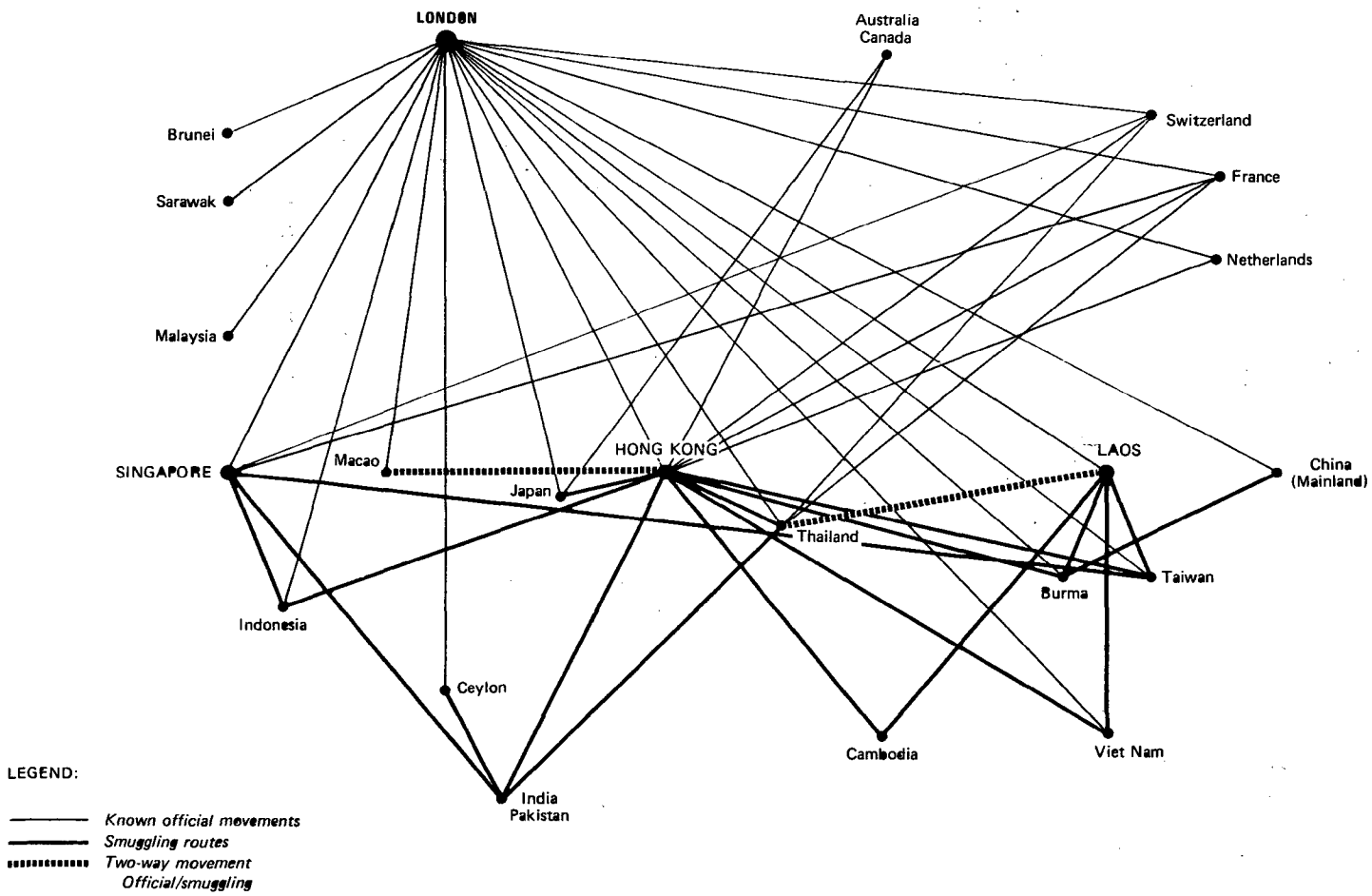
(In millions of U.S. dollars)

Imports From	1960	1961	1962	1963	1964	1965	1966	1967	1968	Jan./Nov. 1969
Australia	7.7	22.1	10.1	17.9	15.7	28.1	25.7	19.2	12.8	33.3
Canada	9.9	7.3	15.0	16.8	7.0	0.4	2.7	1.0	2.2	1.4
France					0.1	0.2				
Netherlands	13.9			0.7			0.5	4.8	13.3	14.2
South Africa	15.3									
Switzerland	0.1						0.1			
United Kingdom	2.3	5.1	8.8	5.8	3.6	25.4	21.1	42.2	19.1	26.2
Total imports	49.1	34.5	33.9	41.3	26.4	54.1	50.2	67.1	47.4	75.1
Re-exports to										
Macao	47.7	34.3	34.5	41.1	26.3	52.1	51.3	60.7	24.9	21.7
Sarawak	0.1									
Thailand					0.4					
Laos					0.2	0.2				
Total exports	47.8	34.3	34.5	41.1	26.8	52.3	51.3	60.7	24.9	21.7

Source: Hong Kong Trade Statistics.

CHART 1

GOLD TRAFFIC IN SOUTH EAST AFRICA



In 1960 South Africa was the largest individual supplier, but from 1961 through 1966 more than 95 per cent of the imports into Hong Kong were from Australia, Canada and the United Kingdom; since 1966 the Netherlands have become increasingly important as a supplier of gold in forms other than standard bars. The 1969 data show a very substantial increase over previous years--nearly half of the total was in forms other than standard bars. Until recently virtually all the gold was re-exported to Macao where it was melted down, its fineness (most of which is 995/1,000 or better on import) reduced and recast into smaller bars. (Such an operation is illegal in Hong Kong.)

Table 3. Macao - Gold Imports and Exports

(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Imports	47.6	34.2	34.4	40.9	26.3	50.2	50.3	60.1	25.3
Exports	nil	nil	nil	nil	nil	nil	nil	nil	nil

Source: Reparticao Provincial dos Servicos de Economia e Estatistica General Commercio Externo.

Macao import statistics, shown in Table 3, agree substantially with the Hong Kong data on exports to Macao. On the other hand, it appears that most of the gold reported by Hong Kong to be imported from the United Kingdom appears on U.K. data to be sent from the United Kingdom to Macao. Inconsistent with both sets of data, however, Macao statistics report officially no gold exports (see Table 3). The smaller bars, generally of 6 to 12 ounces in weight, and now of 945/1,000 fineness, are said to be smuggled back by junk into Hong Kong to be sold in the free gold market there. Legal gold operations in Hong Kong were restricted to gold of this fineness until mid-January 1970,[1/] and quotations for both spot and forward delivery were published daily in the local press in terms of Hong Kong dollars per tael of 1.204 troy ounces. Final exports from Hong Kong depend heavily on smuggling, and no reliable information is available on the amounts involved or their destinations.

1/ On January 15, 1970 Hong Kong resumed dealings on the basis of gold 995/1,000 fine to align the market with current international standards.

Hong Kong prices for gold bullion have ranged from 9 per cent to 16 per cent above those for London, as Table 5 shows. The differential, expressed in percentage terms, varied until 1969 with the volume of exports shown in Table 4, and both evidently reflected variations in speculative demand. Following the establishment of the two-tier market in March 1968, the Hong Kong price differential declined sharply, and during 1969 it averaged around 9 per cent.

Table 4. United Kingdom - Gold Exports to Selected Southeast Asian Distributing Centers

(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Hong Kong	0.1	0.2	0.4	0.1	0.4	--	--	0.5	7.0	17.8
Laos	12.7	25.2	11.7	1.8	3.4	15.6	9.0	3.0	10.1	8.7
Macao	3.3	6.6	8.4	5.1	3.5	24.3	22.3	42.9	10.5	10.6
Singapore/ Malaysia	--	--	0.2	1.2	3.1	2.4	4.0	5.0	9.7 1/	12.0 1/
Total	16.1	32.0	20.7	8.3	10.3	42.3	35.4	51.4	37.4	49.2

Sources: Annual Statement of the Trade of the United Kingdom; Annual Report, S. Montagu & Co. Ltd., London.

1/ Of which $8.3 million to Singapore in 1968 and $6.6 million in 1969.

Table 5. Gold Bullion Prices in London and Hong Kong

(In U.S. dollars per fine ounce) 1/

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
London	35.26	35.13	35.10	35.08	35.10	35.13	35.17	35.19	40.10	39.99
Hong Kong	39.22	39.34	38.48	38.50	38.19	40.22	40.52	41.00	44.28	43.78
differential (per cent)	11	12	10	10	9	14	15	16	10	9

1/ Annual averages computed from month-end figures for March, June, September and December. The Hong Kong quotations reflect not only price developments in the London market but also the cost of shipping the gold back from Macao to Hong Kong and the gold dealer's profit. In addition to these charges, the Macao authorities collect a fee for the importation of gold equivalent to about US$2 per fine ounce.

2. Distribution through Singapore

Singapore, the second of the older-established distributing centers, has operated at a much lower volume than Hong Kong and was believed to handle mostly gold in transit for India, Pakistan and Indonesia. According to U.K. export data (Table 4), movements from the United Kingdom to Singapore were only 10-20 per cent of the movement to Hong Kong until 1967. Comparative import data for Hong Kong and Singapore (Tables 2 and 6) indicate Singapore imports at less than 5 per cent of the Hong Kong volume.

More recently, the Singapore authorities have been developing a full-fledged gold and financial market, and nine authorized dealers in gold, mostly banks, have already been appointed under the Singapore Exchange Control Regulations. Gold movement into Singapore as disclosed by official statistics rose much faster in 1967 and 1968 than those into Hong Kong. Official exports of gold bullion have been very small.

Table 6. Singapore - Gold Imports (Refined in Bars)

(In millions of U.S. dollars)

	1963	1964	1965	1966	1967	1968	Jan./June 1969
France and Monaco	--	--	--	--	0.9	0.2	--
Switzerland	--	--	--	--	--	--	0.1
United Kingdom	2.0	2.6	1.6	1.3	3.7	4.4	2.6
Total	2.1	2.7	1.7	1.4	4.6	4.6	2.7

Source: Singapore - External Trade Statistics.

In addition to the imports of gold shown in the table, Singapore imports precious metals and jewelry. Including partly worked gold, they were equivalent to some US$2 million in both the years 1967 and 1968.1/

1/ There is considerable private demand for gold in a semimanufactured state, owing to its use for both ornamentation and religious purposes. Since, however, the amount of imports disclosed by the official statistics is of relatively minor importance in the gold traffic as a whole, it would appear that Singapore's reputation as a distributing center may stem in part from smuggling activity. Singapore's geographic location, its importance as a transit port for goods moving to and from Asia, its financial institutions and well established communications would lend themselves to this traffic.

Gold may be imported by dealers and also by goldsmiths who fabricate jewelry and other products for the domestic market. In order to control the gold inflow, the authorities introduced a gold tender system in October 1966 for registered importers in possession of an import license. An individual registered importer may not import in excess of 1,500 ounces (US$52,500) in any one calendar quarter. Registered importers tender for the licenses which are issued to the highest bidders. This system results in a premium being paid for the gold which accrues to the Government; this premium averaged S$10.25 (US$3.35) a fine ounce over the first quarter of 1968 but has since declined to around S$4.50 (US$1.47) a fine ounce. In fact, the premium appears to fluctuate inversely with movements in the London price--the higher the London price, the lower the premium.

The price of gold for ornamental purposes is fixed in Singapore by the Singapore Chinese Gold and Silver Merchants Association, the price being based on the London price plus domestic costs. The Ministry of Finance approves changes in price by the Association. Until November 1966 the price was fixed at the equivalent of US$42.47 a fine ounce. Thereafter the price was increased several times to the equivalent of US$52.42 a fine ounce which lasted through 1968, and to the equivalent of US$56.45 a fine ounce in 1969.

3. Distribution through Laos

The third major distributing center in Southeast Asia is Vientiane. Unlike Hong Kong and Singapore which have well established port facilities, Laos is entirely landlocked, and communications within the country are poor. External communications depend largely on air transportation, and it is the airport at Vientiane which serves as the official port of entry for gold.

Gold has always had a significant role in the religious and traditional lives of the people of Laos, but the importance of Vientiane in the gold trade of Southeast Asia stems from the monetary reform of October 10, 1958 under which the Laotian kip became freely convertible. At the same time, residents were permitted to import and deal in gold freely, the importation being controlled by the customs only for the purpose of collecting the 20 per cent tax on the value of any consignment imported. In March 1959 this import tax was revised downward to 3 per cent, and dealing in gold was further eased the following July when the authorities excepted the gold trade from the business turnover tax of 16 per cent. When convertibility of the kip was suspended in September 1960 following the change in government, gold imports virtually ceased. They were resumed four months later, but without further support from official reserve holdings. This meant that the gold traffic through Vientiane became a transit trade financed by foreign capital. Commercial banks, in fact, gain foreign exchange from the trade since foreign balances are exchanged into kips in order to pay the import duty.

Private importation of gold was stopped after November 7, 1962, but in May 1963 the Bank of Laos (a commercial bank) was licensed as sole importer and enjoyed a monopoly until April 30, 1964. Additional banks were later licensed, and imports grew to a record level of over US$80 million in 1967. This was more than one fifth larger than the official imports into Hong Kong. As in other Asian centers, the volume of imports declined sharply after March 1968.

Table 7. Laos - Gold Imports

(In millions of U.S. dollars)

1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
18.9	29.6	22.6	7.9	12.8	40.6	59.7	82.2	36.9	36.1

Source: Laos - U.S.AID Statistical Reports.

As the figures in Table 4 showed earlier, a considerable but declining proportion of these imports has come from the United Kingdom. Direct imports from this source, in fact, fell from 67 per cent of total imports in 1960 to about 4 per cent in 1967 but increased again to more than 24 per cent in 1969. No statistics are available indicating the source of supply of the remainder of the gold imported.

On arrival in Vientiane, gold is subject to ad valorem duty. The rate of this duty was increased annually from 3 per cent in May 1963 to 8.5 per cent in April 1967, but was then reduced to 7.5 per cent on January 29, 1969. Revenue from this source represented between 40 and 45 per cent of the Laotian budget by the end of 1967, but the percentage declined sharply in 1968 and 1969 as the rate of imports slackened.

A small portion of the gold is used for domestic consumption, mainly in the form of 18 karat jewelry. Export is prohibited, but the bulk is said to be smuggled out of the country either in the same form as it was imported or after refashioning into crude "smugglers'" jewelry for purposes of transportation. This "smugglers'" jewelry is sold by weight on the basis of cost of importation. The jewelers are said to make their profit by charging for the workmanship involved--about the equivalent of 5 per cent. From occasional published reports of seized consignments, it appears that the smuggling is principally into Viet-Nam, but also into Thailand, Burma and Cambodia--border control in these areas seems virtually impracticable.

III. The Markets of Southeast Asia

There is a correlation between private gold absorption and religious practices, although nothing is known of the value of the accumulated gifts to temples and other religious shrines. In Southeast Asia this connection is most clearly noticeable in those countries in which Buddhists are in the majority. This group includes Burma and Thailand, where the temples are famous for their gold ornamentation, and Cambodia, Laos, and Viet-Nam. In none of these countries is the holding of gold by residents completely banned, and it is in this geographic area that a substantial amount of gold disappears each year into private hands.

In addition to the use of gold in religious practices and traditional demand for the metal, the flow of gold into these countries is affected, directly or indirectly, by their proximity to the theater of war, either as bases for operations or as rest areas for troops. As a consequence, there is a large influx of foreign exchange into the private sector which, given the scarcity of goods, tends to stimulate demand for gold in the form of jewelry, as donations to the temples, to disguise sudden affluence and evade taxes or simply as a hedge against the inflationary impact of the war on the local currency.

Ceylon and China (Taiwan), both predominantly Buddhist, are countries in which the industrial use of gold in its wider sense is not inconsiderable, but in both countries the private holding of gold is restricted. This ban does not, however, apply to jewelry which is used to satisfy the demands of tradition, ornamentation and religion.

Ceylon officially obtains some gold on the London market to meet that part of domestic demand represented by permits issued to goldsmiths by the Director of Rural Development and Small Industries. Goldsmiths with these permits can obtain the gold at a price equivalent to $90 a fine ounce. Additional industrial demand for jewelry and dentistry is satisfied on the free gold market at a price equivalent to approximately $110 a fine ounce.

Taiwan demand is met by direct import from London, Hong Kong and Singapore--but smuggling allegedly plays a significant role in meeting unsatisfied private demand in both Ceylon and Taiwan.

Incompleteness of the reported movements of gold is suggested by the irregularity, as illustrated by Table 8, of the consignments of gold from London to the countries with a significant Buddhist population.

Table 8. United Kingdom - Gold Exports to Predominantly Buddhist Countries

(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Burma	--	0.7	--	--	--	62.7	--	--	--	--
Ceylon	--	--	0.4	0.4	0.3	--	--	--	--	--
Laos	12.7	25.2	11.7	1.8	3.4	15.6	9.0	3.0	10.1	8.7
Taiwan	0.4	2.2	--	3.5	3.6	--	7.0	17.5	--	--
Thailand	0.4	--	--	--	3.6	5.6	2.6	--	1.8	0.2
Viet-Nam	--	9.0	--	--	--	--	--	--	--	--
Total	13.5	37.1	12.1	5.7	10.9	83.9	18.7	20.5	11.9	8.9

Sources: Annual Statement of the Trade of the United Kingdom; Annual Report, S. Montagu & Co. Ltd., London.

Burma has a long tradition of using gold in the private sector, but since the change of government in 1962, freedom to deal in gold has been restricted to ownership of jewelry and ornaments. Little information is available on the current activity in the Rangoon market. The nationalization of the banking system in 1963 and the demonetization of large denomination bank notes in 1964 is believed to have caused an increase in demand for gold in the black market as residents moved to protect their capital in the face of increasing socialization of the economy. Under the system of comprehensive state trading, the private importation or exportation of gold is prohibited, but customs seizures of gold indicate that private demand in Burma has stimulated attempts to smuggle gold in from Thailand, Mainland China and Hong Kong. The reported import of nearly $63 million in 1965 probably reflected the physical repatriation of part of Burmese gold reserves prior to Burma's leaving the sterling area on October 17, 1966.

Current gold prices in Rangoon vary depending on the type and quality of the gold and are reported to be between K 350-490 a tical (1 tical = 0.486 troy ounce) corresponding to about US$151-212 a fine ounce. Over the years 1959 to 1963, prices in Rangoon are said to have exceeded those in Bombay on average by more than 60 per cent.

The foreign exchange market in Cambodia is subject to a comprehensive exchange control administered by the National Exchange Office in cooperation with the National Bank of Cambodia. Imports are subject to license, but the volume for which licenses have been issued is not known. No statistics are available at all concerning the trade in gold, but it is generally assumed that at least some of the "smugglers'" jewelry manufactured in Vientiane finds its way into the markets of Phnom-Penh.

Recent reports in the press have indicated that the Cambodian authorities are establishing a gold distribution market in Phnom-Penh on the lines of Vientiane. Such a market would be in direct competition with Vientiane since the duty is expected to be lower than that imposed by the Laotian authorities.

Thailand, with a population 93 per cent Buddhist and freedom to own and deal in gold, constitutes an active market in Southeast Asia. The import and export of gold is controlled by license, although in most of the years covered by Table 9, actual imports have not come up to the licensed totals. As the table shows, Switzerland has been a consistently important source, but since 1966 the United Kingdom has been replaced by France as the other major source. Apart from a short break in 1969, import licenses have been regularly auctioned to the highest bidder since 1964, the successful bidder then becoming the sole importer until the next auction, usually for a period of one year. In 1964 the amounts bid for licenses represented a premium of about 6 per cent on the value of imports, but tended to decline thereafter, and in 1970 the premium was only about 2.0 per cent for a quota of 240,000 fine ounces (US$8.4 million) for the calendar year. In addition to this premium, the importer is required to pay a fee to the Ministry of Finance at the rate of US$1.75 a fine ounce of gold actually imported; this is paid in baht at par value.

Table 9. Thailand - Gold Imports

(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	Jan./Mar. 1969
France	--	--	--	--	--	--	--	3.2	3.6	--
Switzerland	1.9	5.9	7.3	3.0	3.5	--	3.0	3.5	2.8	3.3
United Kingdom	0.9	--	--	3.4	1.4	6.5	2.8	0.2	1.1	0.2
United States	--	--	--	--	--	--	0.2	--	0.2	--
Total	2.8	5.9	7.3	6.3	4.9	6.5	5.9	6.9	7.8	3.5

Source: Annual Statement of Foreign Trade.

When the system of yearly bidding for gold import licenses was introduced in 1964, the successful bidder was obligated to hold prices in line with those in London. From then through 1967 prices in Bangkok remained relatively steady with a differential over the London price averaging about $5.40 as Table 10 shows. Following re-establishment of the two-tier price system in Europe in March 1968, the differential declined to under $5.00. During most of the 1960's, Bangkok prices were more or less above those in Hong Kong, the differential between them varying because, as noted earlier, Hong Kong prices were more responsive to changes in Asian demand (as reflected by the amounts moving out of London). This apparently accounts

for the indication in the table that Hong Kong prices rose more sharply from 1964 to 1967; the force of this demand was fully felt on London prices only after official support of the market there was abandoned in March 1968.

Table 10. Gold Bullion Prices in Bangkok
Compared with London and Hong Kong

(In U.S. dollars per fine ounce)

	1961	1962	1963	1964	1965	1966	1967	1968	1969
London	35.13	35.10	35.08	35.10	35.13	35.17	35.19	40.10	39.99
Hong Kong	39.34	38.48	38.50	38.19	40.22	40.52	41.00	44.28	43.78
Bangkok	39.88	39.43	40.65	40.72	40.26	40.22	40.50	45.06	45.48
Differentials									
Bangkok-London									
absolute	4.75	4.33	5.57	5.62	5.13	5.05	5.31	4.96	5.49
per cent	14	12	16	16	15	14	15	12	14
Bangkok-Hong Kong									
absolute	0.54	0.95	2.15	2.53	0.04	-0.30	-0.50	0.78	1.70
per cent	1	2	5	6	0	-1	-1	2	4

To what extent Thailand is the ultimate consumer of the gold imported both legally and illegally is not known. The use of gold by the Thais is evidently extensive, but large differentials in price between Bangkok, India and Pakistan (as much as US$30 to US$50 a fine ounce over much of this period) suggests a strong financial incentive for gold to be exported to the Indian subcontinent.

Gold has long played an important role in the life of the people of Viet-Nam. Domestic trade in bar gold is forbidden as is also the import and export of gold bullion. Gold jewelry may be imported, however, and nationals returning from foreign travel are permitted to bring in the equivalent of US$600 in this form.

The impact of the war on the South Vietnamese economy in terms of inflation, redistribution of wealth and peripheral black market activities has tended greatly to increase the demand for gold. In June 1966 the financial authorities took action to curtail increases in the price of gold and effective depreciation of the Vietnamese piastre. A gold market Stabilization Fund was established, and the National Bank was empowered to sell gold bars to authorized banks at prices fixed by the Stabilization Fund. These banks were permitted to resell the gold to

jewelers for processing into jewelry for sale to the public. The Stabilization Fund's price for sales of gold to banks was initially set at VN$10,500 per tael, equivalent to US$67.41 a fine ounce at the then current rate of exchange. This price was progressively reduced during the next few months to the equivalent of US$57.78 a fine ounce. Such price levels were, of course, well above contemporary prices in Hong Kong and Bangkok.

In the absence of legal trade, there are no government statistics covering the movement of gold to and from South Viet-Nam, and U.K. statistics have not reported any movement from London since the 1961 flow of $9 million of gold shown in Table 8 above.

Three other countries must be mentioned in connection with the gold trade of Southeast Asia, all of which have been reported in the press at one time or another as being recipients of smuggled gold distributed through Hong Kong, Singapore or Vientiane. These are China (Taiwan), Indonesia, and Japan.

China (Taiwan) is a gold producing country with an average annual production equivalent to nearly $1 million. This amount has not been sufficient to meet the needs of industry (including jewelry), and some gold has been imported from other sources. The U.K. statistics cited in Table 8 above show amounts ranging from under US$1 million in 1960 to over US$17 million in 1967 with occasional gaps that suggest incomplete coverage.

All imports during this period have been subject to license, and dealings in gold by residents of Taiwan are banned. It may be, therefore, that some private demand for gold has been satisfied by smuggling. Little is known of the prevailing prices in Taipei, but the "Monthly Statistics of the Republic of China" reported that the prevailing market price of gold bullion averaged NT$2,079 per Taiwan tael (37.5 grams) over the first eight months in 1967; this average price, equivalent to US$43.11 a fine ounce, was about 7 per cent above the contemporary Hong Kong price.

Japan is also a gold producer with production in recent years running at an annual rate of about US$18 million. From 1955 to April 1968 government purchases from the mines absorbed 5 per cent of available production at a price of ¥ 405 a gram ($35 a fine ounce), the balance of 95 per cent being available for sale to industry and for other domestic consumption at a price equivalent to $57 a fine ounce. Consumption has generally exceeded production, however, and since exchange control regulations have not permitted gold to be imported, the production shortfall has been bridged by the recovery of old gold, by releases from official stocks, and presumably also by smuggling.

In the year ending March 1968 the Japanese authorities purchased the equivalent of about $11 million of gold from the international markets to meet industrial demand, in the hope that these purchases would be adequate to meet demand and thus check or even end smuggling. Subsequently, when the two-tier price system was introduced in the major gold markets, the Japanese Government stopped buying the 5 per cent of domestic production and is believed to have purchased gold equivalent to $26 million in 1968, and $50 million in 1969. Estimates show that gold consumption has continued to exceed domestic production. (Table 11.)

Table 11. Japan - Gold Production and Consumption

(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Production	10.4	11.4	11.9	11.6	12.1	13.2	15.9	18.1	18.9	21.2
Consumption										
Purchased by Government	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.9	0.2	--
Used by Industry 1/	9.5	11.0	12.0	12.0	13.0	14.5	18.5	29.9	42.0	55.0
Production shortfall (-)	+0.4	-0.2	-0.7	-1.0	-1.5	-1.9	-3.3	-11.8	-23.3	-34.8

1/ Including jewelry, medicine and dentistry.

Taken in broad terms, jewelry and the arts account for some 63 per cent of the total industrial use in Japan, industry including electronics some 18 per cent, and dentistry and medicine 19 per cent. It is, of course, extremely difficult to categorize some items, but this division of industrial use can be compared with that of the United States where, in 1966, the breakdown was reported to be jewelry and the arts 62 per cent, industry 31 per cent, and dentistry 7 per cent.

Japanese gold refineries have also handled a certain amount of ore produced in other countries, owing to their lower costs of refining. The amounts are still modest, but since 1963 Canadian exports of gold ore to Japan for refining have risen to an annual level of nearly $2 million; Zambia also is exporting by-products of its copper industry to Japan for refining the gold and silver content.

For Indonesia there are no statistics on gold movements and domestic trade appears to be barred. Press reports suggest that in the late 1950's Indonesia was the recipient of gold smuggled from Hong Kong at a rate equivalent to $2.5 million a year, but that the political disruptions toward the end of 1959 brought the illegal traffic to an end. More recently there have been reports of a revival of this trade. The import of gold into Indonesia has been permitted under license in small amounts for local handicraft industries, but apparent misuse of these licenses led to the banning of the import of gold altogether in mid-May 1968.

Gold has also been exported to Brunei, Malaysia and Sarawak from the London market but no import figures for these countries are available. From 1962-69 an amount equivalent to $10.5 million went to Brunei; in the three years ended 1969 $7.9 million was exported to Malaysia; and in the four years 1960-63 a total equivalent to $16.8 million was shipped to Sarawak.

Imports into Malaysia have been made on a quota basis since late 1968. Licenses to import have been issued by tender to authorized dealers, of which there are twenty six, and the sale of the gold has been restricted to goldsmiths for the manufacture of jewelry and ornaments. Imports under license are restricted in volume to 120,000 ounces ($4.2 million) a year for West Malaysia and 30,000 ounces ($1.1 million) a year for Sarawak. Small amounts of locally mined and dredged gold are sold to authorized dealers at the current free market price.

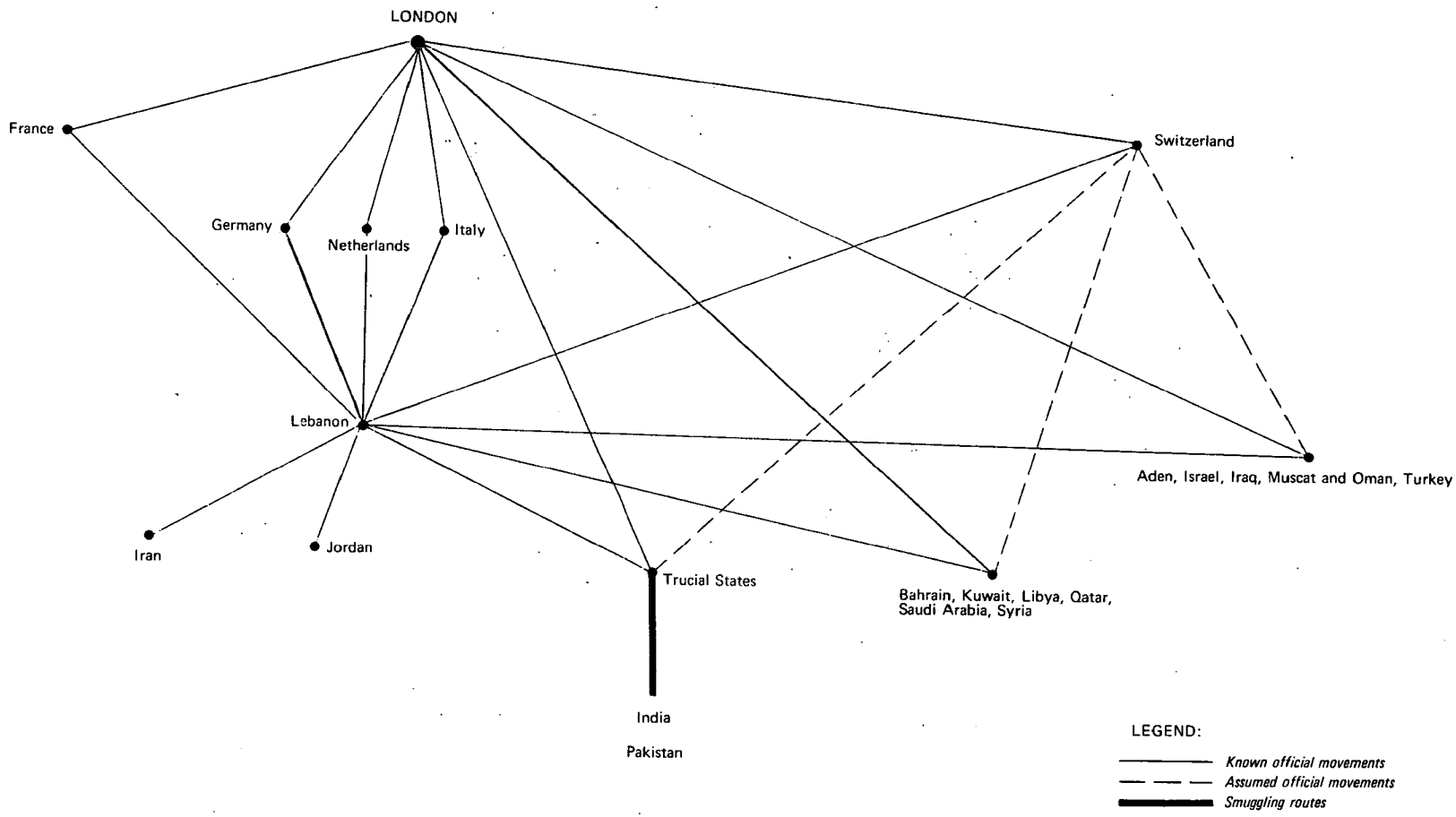
IV. The Supply of Gold to the Middle East Gold Markets

Practically all gold consigned to the Middle East gold markets originates from stocks held in London. From London gold is shipped direct to Aden, Bahrain, Kuwait, Lebanon, Libya, Qatar, Saudi Arabia, Syria, the Trucial States and Turkey, but some gold consigned from London to Switzerland, France and the Netherlands is reconsigned to Middle East destinations or held in safe custody, mainly in Zurich, probably in not inconsiderable amounts for clients in Middle East countries. The flow of the gold traffic in the Middle East is set out in Chart 2.

During the early 1960's the amounts of gold exported directly from the London market to this area were several times as large as those going to Southeast Asia, but they increased less sharply in the later years. In some of these countries large oil revenues have financed more or less steady additions to gold stocks, both official and private; in other territories, particularly those bordering on the Persian Gulf, increased gold imports are simply in transit to the Indian subcontinent.

CHART 2

GOLD TRAFFIC IN THE MIDDLE EAST



Beirut, the capital of Lebanon, is the main distributing center in the Middle East. Imports and exports are unrestricted, the foreign exchange market is free of controls, and residents are permitted to hold and deal in gold freely. The following table shows imports and exports of gold recorded by the Lebanese authorities.

Table 12. Lebanon - Gold Imports and Exports[1/]

(In millions of U.S. dollars)[2/]

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Imports	41.4	68.4	86.0	49.0	81.4	92.1	114.3	104.8	80.4
France	--	--	--	--	2.6	37.4	14.3	8.2	6.8
Switzerland	0.6	0.9	0.8	0.1	2.4	8.3	26.1	13.6	27.4
United Kingdom	40.1	45.2	52.0	48.9	61.7	46.4	63.1	82.9	45.1
United States	--	21.6	32.9	--	13.1	--	--	--	--
Others	0.6	0.3	0.4	0.1	1.6	--	10.8[3/]	0.1	1.1
Exports	3.2	10.0	5.0	2.6	2.3	0.9	2.1	3.9	4.7

1/ Source: Statistiques du Commerce Exterieur.
2/ Converted at the annual average free market rate for the Lebanese pound.
3/ Of which $10.7 million from the Netherlands.

This table discloses that of the total imports of gold into Lebanon, the United Kingdom's share has fluctuated between 50 and 100 per cent. Of particular interest has been the termination of the United States as a supplier after 1964, the appearance in that year of France as a new source, and the growing importance of Switzerland; before 1968 French and Swiss buyers accounted for most of the gold sold in the London market. The gold imported from London has frequently been re-refined into 10 tola bars (about 3 3/4 ounces) or bars of 1 kilogram (31 ounces). It is generally assumed that the gold which arrives in the Middle East via Zurich and Paris has also been re-refined into these small bars. There is now, however, a gold refinery operating in Beirut.[1/]

Beirut prices have moved closely parallel to those of London. As shown in Table 13, the differential (expressed in U.S. dollar equivalent) was less than 1 per cent from 1960 to 1967. Following the mid-March 1968 changes in international marketing policies, the differential increased briefly to about 1 1/2 per cent and then declined again to the previous level by 1969.

1/ In 1963 the Moscow Narodny Bank Ltd., London, opened a branch in Beirut, but there has been no statistical evidence of Russian sales being directly routed to the Beirut market.

Table 13. Gold Bullion Prices in London and Beirut

(In U.S. dollars per fine ounce)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
London	35.26	35.13	35.10	35.08	35.10	35.13	35.17	35.19	40.10	39.99
Beirut	35.46	35.34	35.22	35.21	35.27	35.30	35.36	35.54	40.70	40.24
Differential	0.20	0.21	0.12	0.13	0.17	0.17	0.19	0.35	0.60	0.25

Exports of gold from Lebanon as disclosed by the official statistics have on the average amounted to less than 5 per cent of imports; they have gone mainly to the Arab countries. The domestic official gold reserves of Lebanon have not increased correspondingly, however.1/ If official U.S. estimates are correct that Lebanese industrial usage has averaged only $3-4 million a year,2/ it would seem that an unexplained residual of perhaps $475 million (over the years 1960 through 1968) may have been absorbed by a combination of private hoarding and smuggling out of the country for sale in more profitable centers.

Gold movements from London to other parts of the Middle East have risen more than to Lebanon. As Table 14 shows, the largest amounts have gone to the Trucial States. There are seven such states, only one of which--Abu Dhabi--has large oil revenues. Of the remainder, Dubai derives its prosperity as a commercial center for the whole of the coast, and has been compared to Beirut in this respect. The other five states--Sharjah, Ajaan, Umm al Qaiwain, Ras al Khaimah and Fujairah--have few economic resources, no commercial centers and only minimal port facilities. There are few, if any, restrictions on trade, but no statistics are available; it is known, however, that much of the gold shipped to these states is in transit to the Indian subcontinent.

This gold traffic had been facilitated by the sharing of a common currency with India until 1965, but in that year the rulers of Qatar, Dubai, Abu-Dhabi and Bahrain signed the Arabian Gulf Currency Agreement which replaced the Gulf rupee (in effect the Indian rupee) with the Qatar-Dubai riyal. All seven Trucial States are now using this currency, but the change does not appear to have impeded a sharp rise in the gold traffic to the Trucial States as speculative demand increased in subsequent years; payment for this is now made, at least in part, in silver bullion, goods, or currencies obtained through the black market.

1/ Between 1960 and 1968 Lebanon's official gold reserves increased by $168 million; this is only one fourth of the excess of imports over exports shown in Table 12.

2/ Annual Report of the Director of the U.S. Mint.

Table 14. United Kingdom - Exports of Gold to Selected Middle East Countries

(In millions of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Bahrain	6.9	6.8	12.3	13.7	5.8)					
Kuwait	9.4	15.1	21.1	9.5	16.5)	134.0	146.1	152.2	138.9	72.4
Trucial States	11.7	14.9	32.9	53.0	77.0)					
Israel	--	--	--	--	--	--	--	2.0	1.7	2.5
Lebanon	27.5	35.9	59.7	54.0	54.5	56.1	64.5	84.6	51.8	29.1
Libya	--	--	3.0	5.1	8.9	23.3	4.1	34.0	1.1	19.9
Saudi Arabia 1/	1.0	1.8	5.4	6.8	1.5	1.4	0.2	3.2	2.9	1.6
Syria	0.3	--	0.9	1.5	2.0	0.7	--	--	--	--
Turkey	0.7	9.7	0.2	0.1	0.4	0.5	0.1	0.1	0.3	0.1
Totals	57.8	84.3	135.5	143.0	166.6	215.8	215.0	276.1	196.8	125.6

Sources: Annual Statement of the Trade of the United Kingdom; Annual Report S. Montagu & Co. Ltd., London.
1/ Including small amounts to Muscat and Oman, Qatar and Iraq.

Of the other countries shown in Table 14 as being recipients of gold consigned from London, there is little to be said about Saudi Arabia, Syria and Turkey. The amounts of gold received direct from London have been relatively small, but larger amounts have recently been imported from other sources since the industrial use of gold in Turkey is estimated[1/] to have risen irregularly from US$7 million in 1960 and 1961 to about US$17 million in 1967. In addition to a domestic market well developed for jewelry, coins and small bars are sold to pilgrims making the "Haj" (pilgrimage) to Mecca.

Exports of gold from the United Kingdom to Libya rose sharply to a peak in 1967. Libya was late in becoming an oil producing country, and the demand for gold for hoarding and for use in the domestic jewelry trade has increased substantially.

Prior to August 1962 there were few traders in the Libyan gold market, prices were said to be high, and the possibility of smuggling existed. In order to improve the organization of the gold market, the Libyan Government agreed that the Bank of Libya should be the sole importer of gold, provided that the Bank made gold available to the market at a price to cover its costs. The Libyan gold market price now represents the import price, plus customs duties and other expenses connected with its sale to goldsmiths. The Bank of Libya maintained a selling price equivalent to approximately $43.12 a fine ounce from February 1963 until June 1968, when it was revised upward to the equivalent of $49.47 a fine ounce to reflect higher prices on the London market.[2/]

Figures published by the Central Bank of Libya indicate a rise in gold reserves equivalent to US$85 million between 1963 and 1968, while gold imports for commercial purposes amounted to about US$20 million. About three quarters of the total appears to have come from London, and the balance from other markets.

The Bank of Libya in its Economic Bulletin[3/] described the growing demand for gold in Libya as resulting "from increased incomes combined with the traditional habit of saving in the form of hoarding gold instead of savings accounts or other forms of naturally productive investment." Gold imported by the Bank was made available to the private sector through goldsmiths who were assigned nontransferable quotas. The number of these increased from 73 in 1963 to 130 in 1966.

1/ Annual Report of the Director of the U.S. Mint.

2/ The Bank's price included a 15 per cent ad valorem custom duty, stamp duties, and (up to the end of 1964) a 2 per cent benevolent duty.

3/ Volume VII, No. 1, January-March, 1967.

V. The Indian Subcontinent

Private ownership of gold in the Indian subcontinent perpetuates a centuries old custom deeply embedded in the life of its peoples. In both India and Pakistan there are large agricultural areas in which the people, lacking or mistrusting banking and savings institutions, hold gold as a substitute for cash and savings deposits. Private demand also includes marriage dowries, industrial, scientific and medicinal uses, and for ornamental and artistic purposes. Of these uses, the most significant is the marriage dowry. The amount of gold used in marriage ceremonies is, however, extremely difficult to assess since it depends on such factors as family customs regarding dowries, the wealth of the families, local tradition, the education of the parties involved, and the price of gold at the time. For these reasons, private demand for gold is sustained and heavy, and has caused something of an economic crisis since the price of gold in local markets has been raised to a level which makes smuggling extremely attractive. This undermines the value of the domestic currencies, causes wastage of foreign exchange reserves, and encourages dishonesty by the under- and over-invoicing of goods in transit.

In India there is a virtually insatiable private demand for gold in the manufacture of ornaments, which rises steadily with the rapidly growing population and its increase in purchasing power. Only a fraction of the demand is met by India's domestic production of gold, which is of the order of $4 million a year and is largely earmarked for government reserves and for industrial use other than jewelry. The Indian Government has for years been concerned with the problem of reducing private demand for gold so as to conserve the nation's limited foreign exchange resources. Private imports of gold have been banned since 1939, but gold continued to flow in because of the practical difficulties of policing the vast coastline and extensive land frontier. Internal gold controls were introduced in January 1963,[1] with the objective of discouraging the gold habit and ultimately of mobilizing some of the very large private gold accumulation for purposes of economic development. In the immediate context control was aimed at halting the drain on the nation's foreign exchange resources through smuggling, which was estimated to be $130-140 million a year.

Promulgation of the Gold Control ordinances has not caused prices in Bombay to fall--in fact they rose in early 1969; there is also little evidence of lessened gold smuggling through the Persian Gulf. In this connection it is interesting to note that present expenditure of the Customs Department in India is less than one per cent of customs revenue. This compares with 5.2 per cent in the United States. A study team in India suggested that "this low cost has been reached at the cost of essential needs in manpower, equipment, training and staff contentment."[2]

1/ The control legislation and similar efforts to 1969 are described in the Annex to this paper.

2/ Eastern Economist, October 20, 1967.

The strengthening of the machinery for detection and prevention of smuggling has often been mentioned as a key requirement in any attack on the gold smuggling problem.

In Pakistan there are no restrictions on internal gold transactions for industrial and artistic uses, but there is a total ban on gold import and export. Industrial users and goldsmiths meet their requirements by buying gold in local markets. In West Pakistan this demand is satisfied mainly from gold smuggled in from abroad, and in East Pakistan the supply mainly comprises gold smuggled in from West Pakistan. A small quantity of gold, 2,000 tolas (about $26,000 worth) a month, is imported from West to East Pakistan under government permits. Neither East nor West Pakistan produces any gold.

Capital transfers between Pakistan and India are forbidden under the foreign exchange regulations, and persons wishing to migrate from one country to the other and take their capital with them can do so only by converting the proceeds of the sale of their property into gold and by running the risks of carrying it illegally with them to their new country. Capital transfers financed in this way were believed to be substantial in the years following partition (1947) when there was a large exodus from minority communities in East Pakistan to India. The number of migrants is now reduced to a trickle, and the demand for this purpose no longer appears to be substantial.

It was with a view to checking or minimizing the capital transfers from East Pakistan to India through illegal movement of gold that the Government imposed restrictions in December 1950 on the movement of gold between West and East Pakistan. These restrictions were withdrawn in May 1952, but were reimposed in September 1954 and are still in force. There is not, however, a complete ban on this movement since, as already mentioned, there is an import quota of 2,000 tolas of gold per month from West to East Pakistan. This quota, which is meant for the East Pakistan Jewellers' Association, is fixed by the Government. Permits are issued by the State Bank of Pakistan not only under this quota but also on the recommendations from various Deputy Commissioners in East Pakistan for small quantities.

The restrictions on the free movement of gold between West and East Pakistan have caused disparity of gold prices between the two sectors. Gold prices in East Pakistan have been consistently higher than those in West Pakistan. The difference in these gold prices can be seen in Tables 15 and 15A.

Table 15. Average[1/] Gold Bullion Prices in Selected Markets

(In U.S. dollars a fine ounce)

	London	Beirut[2/]	Hong Kong[3/]	Bangkok[4/]	Bombay[5/]	Karachi[6/]	Chittagong[6/]
1960	35.26	35.46	39.22	42.90	73.73	74.93	87.54
1961	35.13	35.34	39.34	39.88	79.72	75.56	89.33
1962	35.10	35.22	38.48	39.43	76.81	74.96	88.95
1963	35.08	35.21	38.50	40.65	68.29	69.47	n.a.
1964	35.10	35.27	38.19	40.72	76.48	73.38	n.a.
1965	35.13	35.30	40.22	40.26	85.59	69.93	80.48
1966	35.17	35.36	40.52	40.22	70.16	67.96	79.88
1967	35.19	35.54	41.00	40.50	62.72	72.45	80.18
1968	40.10	40.70	44.28	45.06	63.19	78.08	83.99
1969	39.99	40.24	43.78	45.48	70.89	94.04	99.19

1/ Average of end quarter prices.
2/ Quoted as LL per kilogram.
3/ Based on local quotation of HK$ per tael (945/1000 fine).
4/ Prices given in Baht per baht-weight (15.244 grams).
5/ Quoted as rupees per tola (11.664 grams).
6/ Quoted in rupees per Gold Tezabi.

Table 15A. Average[1/] Gold Bullion Prices in Selected Markets
Shown as Premium on the London Market "Fixing" Price

(In U.S. dollars a fine ounce)

	London	Beirut[2/]	Hong Kong[3/]	Bangkok[4/]	Bombay[5/]	Karachi[6/]	Chittagong[6/]
1960	35.26	+0.20	+3.96	+7.64	+38.47	+39.67	+52.28
1961	35.13	+0.21	+4.21	+4.75	+44.59	+40.43	+54.20
1962	35.10	+0.12	+3.38	+4.33	+41.71	+39.86	+53.85
1963	35.08	+0.13	+3.42	+5.57	+33.21	+34.39	n.a.
1964	35.10	+0.17	+3.09	+5.62	+41.38	+38.28	n.a.
1965	35.13	+0.17	+5.09	+5.13	+50.46	+34.80	+45.35
1966	35.17	+0.19	+5.35	+5.05	+34.99	+32.79	+44.71
1967	35.19	+0.35	+5.81	+5.31	+27.53	+37.26	+44.99
1968	40.10	+0.60	+4.18	+4.96	+23.09	+37.98	+43.89
1969	39.99	+0.25	+3.79	+5.49	+30.90	+54.03	+59.18

Note: Footnotes are same as for Table 15.

The illegal movement of gold into India and Pakistan

Gold is smuggled into India and Pakistan mainly from the Persian Gulf territories. Gold dealers in these territories usually buy in either London or Zurich 10 tola bars, which are only one and three quarter inches long and weigh only 3 3/4 ounces, and can be concealed quite easily. The bars are ordered through legal channels and are paid for in hard currencies. The gold is flown to the Persian Gulf area and well organized gangs smuggle it into India and Pakistan in fast launches, fishing boats, etc. The gold is resmelted to remove refinery marks and is offered for sale on the free markets in India and Pakistan.

Gold smuggling can be financed by under-invoicing of exports, over-invoicing of imports, conversion of local currency into foreign currency in the free market, smuggling of silver and goods out of the country, and the use of hard currency savings by Indian and Pakistani nationals working abroad. Considerable risks are involved in this trade, but smugglers are prepared to run them in view of the very substantial profits that may accrue. Gold can be obtained with a convertible foreign currency in the Trucial States at a price only slightly higher than that ruling in the main European markets. If gold smuggling is financed by the conversion of local currency into foreign currency, a Pakistani smuggler could, for example, obtain one tola of gold in the Trucial States for the equivalent of $14. (When the free market rate is US$1 = Rs 7.50 and the price in Europe is approximately $35 a fine ounce, $35 a fine ounce corresponds to $14 a tola.) Since mid-March 1968 the European markets have operated freely on the basis of supply and demand with prices in excess of $35 a fine ounce; a price of $40 a fine ounce means that the smuggler can obtain a tola bar for the equivalent of $16. As one tola of gold can be sold at the equivalent of say $17.33 in the Karachi market, the smuggler used to earn a profit of 24 per cent, but he now earns a profit of the order of 8 per cent. This profit margin would be reduced by a depreciating rupee in the free markets but increased if the price for gold rises in Karachi as it has.

Some illegal gold imports are financed by smuggling out silver. In the Persian Gulf the cost of 100 tolas of silver equals the cost of about 3.58 tolas of gold, namely the equivalent of US$59.65. If the cost of silver purchased in Karachi is deducted from the proceeds of the sale of 3.58 tolas of gold in Pakistan, the profit margin is approximately 24 per cent.

When the purchase of gold is financed by under-invoicing exports, the profit margin can be even higher. The cost of gold in the Trucial States is slightly higher than $16 a tola which can be sold in Karachi for rupees 130. If the exporters had surrendered the $16 to the exchange control authorities, they would obtain rupees 76.16. A combination of under-invoicing and smuggling can thus provide a theoretical profit margin of over 70 per cent.

Gold smuggling causes a severe drain on the foreign exchange resources of India and Pakistan through the leakage of foreign exchange connected with under-invoicing of exports and over-invoicing of imports, through losses of silver smuggled out of the countries and, since gold smuggling is also financed through the conversion of local currency into foreign currency, large amounts of Indian and Pakistan rupees are available cheap in the free markets abroad. Tourists and others contribute to the drain by buying these cheap rupees rather than converting their own currencies into rupees through official channels at the official rates.

The Trucial States are not the only areas from which smuggling to the Indian subcontinent originates. There is, for example, a substantial transit trade in gold in Kabul, the financing of which has been reported in rupees at black market rates. The smuggling of gold over the northern frontier can be even more difficult to regulate than the seaborne traffic on the west coast, since there are large numbers of nomadic tribesmen who regularly cross the national borders in their normal course of life. Such gold is said to be in coins or small bars purchased originally in either Beirut or in Iran for eventual sale in the Indian and Pakistan markets. Smuggling of gold has also been reported to the eastern markets in both India and Pakistan from Southeast Asia and from Ceylon.

India--Gold Control

The Gold Control Order (1963) provided for control over bullion and regulated industrial use. On the promulgation of the order, virtually all persons possessing gold in a form other than ornaments were required to declare them. A ban was imposed on the purchase or acquisition (except through inheritance) of gold by persons other than licensed dealers and refiners. Hypothecation or pledging of undeclared gold was prohibited. A ban was imposed on the manufacture of ornaments of a purity in excess of 14 karats.

Following a report by an informal group of government officials in September 1963, a concession was made to self-employed goldsmiths by permitting them to fashion ornaments out of gold in excess of 14 karats if the gold was derived from ornaments of a like purity. This concession to the goldsmiths was felt in some quarters to compromise the effectiveness of the Gold Control Rules, since an essential step in the weaning of Indians from gold was the reduction of the purity of the gold ornaments to 14 karats. The effects of gold control were, however, reasonably significant in the year ended September 1965 when it was reported that the equivalent of nearly $19 million worth of ornaments of 14 karats had been manufactured, although this was considered to be only a small proportion of the total. Loans against gold had dropped from Rs 42 crores ($56 million) to Rs 20 crores ($27 million). The number of refiners in business had fallen from 1,000 to 102, and the number of gold dealers from 27,000 to 14,000. In addition, stocks of gold and ornaments, which on the eve of gold control had been estimated at 28,000 kilograms ($31.5 million), had declined to 4,000 kilograms ($4.5 million).

It was against this background of limited success that the Gold (Control) Act of 1965 was approved by Parliament in September 1965, but it was not promulgated.

Persistent lobbying both in Parliament and in the country persuaded the Government to set up a further informal committee of officials to examine the question of continuing, discontinuing, or modifying gold control. An interim report in August 1966 presented as its main conclusion that "there had been no economic or financial development of any significance since Parliament enacted the Gold (Control) Act of 1965 such as would warrant a change in the basic gold policy." While agreeing with this conclusion, the Government recognized that a social economic reform of this nature could not be expected to be achieved within a few years and that restrictions should only be introduced gradually.

Accordingly, on September 2, 1966, the Prime Minister announced certain modifications of the Gold Control Rules to be effective November 1. These modifications removed the restriction on the manufacture of ornaments of over 14 karat purity; imposed a ban on the possession of primary gold (gold bars, ingots, slabs, billets, shots, pellets, rods and wire) beyond a specified date by persons other than

licensed dealers, goldsmiths, and refiners; called for a declaration of holdings of ornaments and articles of gold above specified limits (2,000 grams per adult, 800 grams per minor, with a family limit of 4,000 grams); and brought the gold refineries under state control. In March 1967 some rules of the Gold Control scheme which had not come into effect the previous November were put into operation--they fixed a time limit of 6 months after March 1, 1967, beyond which primary gold held by nonauthorized persons would be confiscated; they also prescribed that refineries should only manufacture standard bars in weights of 10, 50 or 100 grams having a fineness of 995/1,000. A Control Excise Officer was appointed to maintain a continuous check on each refinery.

Domestic production from the Hutti gold mines continued to be used for genuine industrial production such as the manufacture of liquid gold, jari, fountain pen nibs, Ayurvedic medicines, etc. Cuts in the quotas for industrial use imposed in the final quarter of 1965 were restored during 1966. No change was made in the policy of authorizing the manufacture of gold medals awarded by educational and other institutions, and in the authorizations issued to temples for the adornment of idols and for other religious purposes.

Despite considerable political opposition, a new bill, The Gold (Control) Act 1968, was passed by Parliament in the autumn of 1968. The opposition held that gold control in India was a failure and that it was an exercise in futility since the peoples of India did not themselves believe in it. The 1968 Act has attempted to be more successful than the earlier ordinances by tightening procedural aspects of control by imposing restrictions on refiners, dealers and goldsmiths. In order to stop the circulation of smuggled gold the bill has attempted to define the term "ornaments," allowing the Government to acquire a knowledge of stocks of such ornaments and has provided for ornaments to be stamped with their fineness--in other words, trading in ornaments should become difficult and their supply should not be increased from new supplies of smuggled gold. Severe penalties have been provided for any contravention of the Act.

The Act, however, ran into difficulties. Certain of its provisions, thought to be unconstitutional and infringing on the liberties of the people, were appealed to the Indian Supreme Court, and in April 1969 they were held to be constitutionally invalid. The controversial sections were revised, and The Gold (Control) Amendment Ordinance 1969 was promulgated on July 3, 1969, and came into immediate effect.