

INTERNATIONAL MONETARY FUND

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To: Members of the Executive Board  
From: The Secretary  
Subject: Article From The Economist - Gold Dealings at Macao

There is attached the text of an article which appeared in the April 17, 1948 issue of The Economist.

Att: (1)

Other Distribution:  
Department Heads  
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GOLD DEALINGS AT MACAO

FROM A SPECIAL CORRESPONDENT IN THE FAR EAST

One of the biggest gold markets in the world today, certainly the biggest in Asia, is at Macao, the 400-year old Portuguese settlement at the mouth of the Canton river. It is the main channel for gold entering China and also serves as a distributing centre for the whole of the Far East. It is reliably reported to have absorbed more gold during the past six months than any other market in the world. Most of the gold is coming from Mexico and the United States, while the balance is from various European and Middle Eastern countries. During the week ending February 18th alone, the United States exported gold to the value of U.S. \$900,000—about 26,000 oz.

Gold has always been a popular investment in China. Owing to the inflation and the uncertain political situation, the demand is greater than ever before. The capacity of the Chinese market to absorb large quantities of gold at prices which are 75 and 100 per cent above parity is a puzzling phenomenon. The weakness of the government's control is illustrated by its inability to prevent a continuing expenditure of foreign exchange on a commodity which is of singularly little use to it in fighting the civil war or rehabilitating the country.

During Dr. Soong's premiership, the Chinese government sold large quantities of gold through the Central Bank of China—estimated at 2,000,000 oz. for the year ending February 17, 1947—as part of a campaign to bolster China's currency. On February 17, 1947, however, official sales were suspended and unofficial dealings were declared illegal. Owing to the increasing demand, a good deal of smuggling and illicit trading continued. The main problem was how to get the gold into the country. The Hongkong government forbade gold imports, both because Britain is a member of the International Monetary Fund which discourages gold sales above parity prices, and because gold imports would have increased the unofficial exchange rate for U.S. dollars and raised the price of commodities imported from America.

It was at this juncture that the dealers turned their attention to the little half-forgotten Portuguese settlement of Macao. Portugal, not being a member of the United Nations, does not subscribe to the IMF. There was no legal bar to the traffic and the Portuguese authorities were quick to appreciate its possibilities. Macao's airfield was too small for transport aircraft, but very soon a specially chartered Catalina flying-boat was hauling gold on regular runs from Manila, Bangkok and Saigon. More than 1,100,000 oz. were imported last year and about 350,000 during the first seven weeks of 1948. At the beginning import licences were issued at the rate of one Macao dollar per oz. The rate has now been raised to M\$2 per oz. for direct imports and M\$3 per oz. for imports in transit. A deposit of 10 per cent of the value imported has to be made in Macao dollars with the BANCO NACIONAL ULTRAMARINO. This has



led to a shortage of Macao dollars and has resulted in the Hongkong dollar, which runs normally at par, being quoted at a discount ranging from 10 to 21 per cent. The importer also has to surrender one per cent of the American exchange required to finance the traffic. Thus the market is proving highly lucrative to the local government, to the dealers and also to those individuals who have been manipulating the money exchanges and re-selling import licences.

Most of the gold is smuggled into China and Hongkong--the current smuggling quotation from Macao to Hongkong is about HK\$12 per tael--but there is also a considerable flow in the direction of Bangkok, Rangoon and other markets in the East. It is thought by some observers that imports into Macao this year may touch 3,000,000 oz.