

Recent Developments in Gold Dealings in the Far East

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1. Introduction

The problem of gold export at a premium from the Philippines and official dealings on this subject between the Fund and the Philippine Government were discussed in RD-445. The Government of the Philippines, which is the most important, and almost the only significant gold-producing country in the Far East, and has accounted for most of the recent gold shipment to Far Eastern Territories, has expressed its desire to conform to the Fund's ruling regarding the prohibition of gold sales at a premium. Nevertheless, smuggling has been discovered from time to time. The Daily Report of the Foreign Radio Broadcasts on November 13 stated that Chinese Customs authorities on November 12 disclosed seizure of 900 ounces of gold from the United States ship Statewood, which arrived in Hongkong from Manila on November 11. The gold was in bullion, cleverly concealed in false bottoms of camphor boxes. During the first weeks in December, Hongkong Customs three times reported seizure of smuggled gold, totaling over HK \$600,000, (US \$115,385, converted at the market rate HK \$5.2 = US \$1). There is no doubt that the gold was smuggled but its source has not been definitely ascertained.

In existing conditions in the Far East countries, such as the need for reestablishment of gold mines, and the high cost of production in the Philippines, the great disparity between the official buying price and the prevailing market price in China, the existence of convenient entrepot ports for gold in Hongkong and Macao, and the local disparities in gold prices, gold remains one of the most important objects of speculation, and is a disturbing factor in the financial market.

The market prices of gold bullion in the main cities of the Far East are as follows:

(U.S. dollar per ounce)

<u>The Week Ending</u>	(1) <u>Shanghai</u>	(2) <u>Hongkong</u>	(3) <u>Bombay</u>	(4) <u>Manila</u>
Sept. 6, 1947	55.90	57.13	88.98	—
" 13	— — —	53.60	87.74	—
" 20	55.91	53.78	89.15	—
" 27	56.00	54.28	89.52	50
Oct. 4	53.23	52.30	88.00	—
" 11	56.80	53.45	89.70	—
" 18	50.30	52.05	84.02	—
" 25	57.30	51.64	84.54	47
Nov. 1	56.96	54.03	84.30	—
" 8	57.63	50.90	— — —	—
" 15	60.43	52.80	— — —	—
" 22	58.33	52.66	— — —	48

(1) From Far East Trader, San Francisco, reported in yuan per oz. converted into US dollar at free market rate.

(2) From Far East Trader, San Francisco, reported in Hongkong dollar per tael (1 tael = 1.214 oz.) converted into US dollar at free market rate.

(3) From Eastern Economist, Bombay, reported in Rupee per tola (1 tola = 0.375 oz.) converted into US dollar at the official exchange rate.

(4) From Far East Trader, San Francisco.

## 2. The Gold Trade of China

During the war, the Chinese Government adopted a policy of selling gold to the public to absorb currency. The total amount sold from 1943 to 1946 has been published as the equivalent of US \$34,983,100 (converted by market rate) and 1,311,000 ounces in weight. This policy checked inflation in China for some time. However, it also resulted in an increase in private gold holdings and in private dealings in gold.

Since November 1946, importation of gold has been restricted, and special permission has to be obtained from the Ministry of Finance. The Economic Emergency measures of February 16, 1947 prohibited the purchase, sale and export of gold, and the use of gold as a medium of exchange. Holders of gold were instructed to exchange their gold for Chinese currency at the Central Bank of China or other designated banks.

The import of gold has been regularly reported in the Monthly Returns of the Foreign Trade of China, published by The Chinese Maritime Customs. For June 1947, it was reported that gold bullion unloaded at Shanghai and consigned to the government amounted to 389,899 ounces.

Following the introduction, on August 17, of open market rates of foreign exchange, the purchase price of gold of the Central Bank of China has been based on the open market foreign exchange rate instead of the official rate. This should be more effective in attracting gold to the Central Bank.

### 3. Indian Ban on Bullion Imports

All through the war the import of gold on private account was prohibited, except under license from the Reserve Bank of India. The import duty collected on gold during the year ending February 1947 amounted to U.S. \$730,700, indicating an import of about 101,250 ounces.

Since March 1947, gold imports have been completely banned. The price of gold now stands at about 2-2/3 times the parity of \$35 an ounce.

Government of India have taken firm steps to prevent smuggling, especially through Indian States.

The China Press of June 6 reported confiscation by the Bombay Customs of smuggled gold valued at US \$515,150 since the gold embargo imposed at the end of March.

### 4. The Philippine Situation

With a total production of about US \$48 million in 1941, the Philippines ranked sixth among the gold-producing countries of the world. During the war, gold mining was suspended. Since V-J day, many mines have resumed operation. For the first ten months of the current year, the reported production is 41,435 ounces. Conservative estimates are that production for next year will approximate at least US \$10 million, based on the official price of \$35 per ounce, and with about half a dozen gold mines operating at full capacity. By 1948 the Philippine gold-mining industry will be operating at about 25 percent of the 1941 rate of production. It has been reported that the \$35 ounce parity is considered too low to permit profitable production in the face of increasing costs. The entire August production of the Big Wedge, operated by the Atok gold company, amounting to 5,800 ounces, was sold to local Chinese buyers at \$47 an ounce. The premium price now offered in Manila gives considerable impetus to the Philippine gold mines to rehabilitate their war-damaged property.

According to the Manila Daily Bulletin of September 12, The Department of Finance of the Philippine Government announced that persons who obtained licenses on or before July 1947 for the exportation of gold would be allowed to make foreign shipment, provided that the gold to be shipped was actually in the Philippines on September 12. It is understood that only two shipments of gold were possible in accordance with this ruling. Licenses issued for gold export will be cancelled, if the holders cannot show that the gold they seek to ship out of the country is actually in the country.

Reliable information states that by government regulation a person in the Philippines may buy and sell gold at any price, but may not export it at more than \$35. Gold is openly sold in Manila at premium prices (the prevailing price was \$47 per ounce in August, \$50 at the end of September, and \$47 at the end of October). While in theory these buyers and holders would be unable to obtain licenses for gold export, the prevention of smuggling does not seem to be effective.

The Philippine Government has apparently not established a definite and clear-cut policy on gold. Further press reports say that the government would endeavor to "protect the local industry" by allowing exportation "under the most favorable terms."

#### 5. Hongkong Prohibition of Gold Import

Gold transactions claimed first place in the speculative markets of Hongkong and a great deal of interest is centered around the reported air-transport of gold from Manila and Macao. The Hongkong Government announced prohibition of gold imports on May 12. Since then the center of gold activities has shifted to Macao. Near the end of October, Hongkong ordered the confiscation of over US \$57,250 worth of gold imported illegally from Bangkok.

In spite of the prohibition, the demand for gold in Hongkong did not subside. Very recently a fairly large shipment came to Hongkong in the form of "Budhas" of 22 carat fine gold. It was shipped under the name of "industrial products."

#### 6. Gold Dealing in Macao

Macao gets its gold from the Philippines and Siam and transfers it mainly to China and Burma. In Rangoon, Burma, the gold price runs as high as U.S. \$54.1 per oz. In August, exports of gold from Macao to Burma were said to have aggregated 20,000 ounces. In mid-October it was reported by The Far Eastern Economic Review that around 20,000 ounces of gold had been imported from Siam and some small amount from the Netherlands Indies into Macao. In September no import of gold was recorded in Hongkong, but the total export of gold shipped to Macao was valued at U.S. \$569,610. This lot, comprising about 8,300 ounces, was supposed to have resulted from orders placed many months ago when the Hongkong Government permitted gold imports in transit to Macao. Large gold exports from Hongkong to Macao have been officially recorded and always explained as "backlog". The latest information is that gold shipments to Macao from Manila and Bangkok during the week ending November 10 were of small quantities, the Bangkok lot being 10,000 ounces.

#### 7. Siam's New Regulations on Gold Import

The Siamese government has embarked on a policy of gradual withdrawal of banknotes in circulation by the sale of gold. About 14 million baht has

been absorbed through domestic gold sales during the year. Customs statistics show that in the first six months of this year over 22 million baht (US \$2.2 millions at the official rate) of gold was imported. Gold bars have been sold on the open market in Siam for around U.S. \$48 per ounce.

Since the gold market in Siam was unregulated, Bangkok has become the entrepot for gold smuggling. London dealers have purchased gold in New York against pounds and sold it in Siam against US dollars. Gold goes to Bangkok by air or ship. It has been reported that gold was being transferred to Swatow, China, directly, or via Macao. One shipment to Macao in early October was reported to be more than 10,000 ounces, priced at the equivalent of US \$50.33 per ounce.

In order to reduce the amount of foreign exchange used for gold purchases from abroad, the Finance Ministry promulgated regulations in November, 1947, requiring the sale of all gold imports to the Bank of Siam at the official price. Gold merchants were able to bring in gold for trans-shipment up to November 10 without being under the obligation of resale to the Bank of Siam. About 4,000 ounces held up by the Customs were turned over to the Bank of Siam as a result of the regulations.