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The Far Eastern Gold Trade

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The Far Eastern Gold Trade

A complete and accurate account of the Asian gold trade is impossible because much of the movement is illegal and shrouded in secrecy. This paper reviews the known data and attempts to fill in some of the gaps with educated assumptions that appear consistent with economic reasoning. Part of the information for this paper was obtained during a recent trip to the Asian area, and part from data published within the various countries.

This paper is concerned with the movement of gold in the Far East, and in particular in Hong Kong, Macao, Laos and Thailand. These areas have been selected partly because of the availability of data and partly because gold movements in these four territories affect the entire Asian gold trade. Gold movements in other Far Eastern countries have mainly local interest.

A. Hong Kong and Macao

Hong Kong has for a long time been an important part of the Asian gold trade. Geographically, this British Crown Colony is in the center of the Far East. Because of its location and extensive commercial facilities, Hong Kong is a port of call on many of the shipping and airplane routes in the Far East. This has helped the Hong Kong gold traders to ship smuggled gold to all parts of the Far East and South Asia. In addition, Hong Kong has numerous financial organizations, many of which maintain close contact with other financial centers of the world, so that the gold dealers have widespread facilities for financing their trade. Hong Kong's free market for foreign exchange is another favorable feature of the colony for the gold smugglers, since it enables them to convert their local currency receipts from the sale of smuggled gold in the various Asian countries into hard currency (dollars, pound sterling) with a minimum of inconvenience. Finally, it is probable that the close family connections maintained by the Chinese in Hong Kong and the Chinese scattered throughout the Asian area have enhanced Hong Kong's importance in the Asian gold trade.

Prior to the communist seizure of mainland China, Hong Kong gold merchants were chiefly engaged in meeting the demands of private gold hoarders in China. The current gold business owes much of its existence to a Hong Kong governmental regulation in October 1953 which authorized the import of gold for purposes of re-export within a specified time period provided such re-exports complied with the import licensing requirements of the country of destination. This enabled traders legally to ship gold by air-freight to Hong Kong, and then legally re-export it by small plane to neighboring Macao, which lacks a large airfield, or even a deep sea harbor. Macao is a Portuguese colony whose residents may freely import commercial gold. The 1953 regulations also authorized the transshipment of gold owned by nonresidents of Hong Kong to any destination. This enabled nonresidents legally to export gold which they somehow managed to bring into Hong Kong, usually by smuggling it in from Macao.

The United Kingdom appears to be the largest single supplier of gold to Macao via Hong Kong, although gold has also been sent from Canada, France, Switzerland, the Netherlands, Australia and South Africa. Between 1946 and 1959, Macao is reported to have imported 17 million troy ounces of gold valued at about \$600 million. Since 1958, one-fourth of these imports have come from the United Kingdom. The trend of gold arrivals in Macao via Hong Kong is given for recent years in Table 1.

Table 1

Gold arrivals in Macao  
(thousand ounces)

	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Year</u>
1958	419.2	209.1	259.7	272.3	1,232.4
1959	410.5	424.5	318.8	283.4	1,437.3
1960	343.2	247.9	373.0	399.6	1,363.7
1961	370.6	198.3	218.7	192.5	980.0
1962	261.1	192.2	268.2	263.6	985.2
1963	347.7				

This table indicates a significant decline in 1961 and 1962 in the amount of gold legally shipped to Macao. The average yearly volume in these years is more than 25 per cent less than in 1958-60. This sharp decline in legal gold imports meant that less gold was being smuggled from Macao to Hong Kong, since most of Macao's gold imports were smuggled back to the British colony. It does not mean that the volume of gold shipped out of Hong Kong to be smuggled into Asian countries declined to the same extent. Macao is not the only illegal supplier of gold into Hong Kong, but gold also arrives from the Middle East and directly from Europe. Unfortunately, there are no reliable estimates on these illegal imports into Hong Kong. It is probable, however, that the decline in Macao's gold imports does reflect to some extent reduced shipments from Hong Kong, mainly due to growing competition, especially from Laos. (See below p. 6).

Most of the gold entering Macao is in bullion of .999 fineness. Once in the colony, the gold bars are melted down and cast into lighter ingots. The ingots are stored in Macao's extensive warehousing facilities until they find their way back to Hong Kong, generally in small junks travelling between the two countries. Macao has regulations forbidding the export of gold, but these have not discouraged the gold smugglers. Some of the gold is sold in Macao in the form of jewelry.

Once in Hong Kong, the bars can be sold in the free gold market to smugglers. The price of gold is quoted daily by the Hong Kong press (Daily Commodity Quotations), and is in terms of Hong Kong dollars per tael (1.204 troy ounces) of gold of .945 purity. Hong Kong regulations ban transactions in gold of more than .950 purity. The ingots traded generally weigh 6 or 12 troy ounces. The price is influenced by developments in the London Gold Market and the cost of

transporting the gold from Europe to Hong Kong to Macao and back to Hong Kong . In addition, there is an import fee of about US\$2 per ounce charged by the Macao authorities. The price also reflects the demand for gold which in turn is influenced by the gold smugglers' prospects for profit. Confiscation of large quantities of smuggled gold by national authorities, and political-economic conditions in the gold importing countries also affect the price of gold in Hong Kong.

Table 2 indicates the price of gold in the Hong Kong market during the past few years and the difference between this price and the London price.

Table 2

1. Price of gold in Hong Kong: end of month  
(In U.S. dollars per fine ounce at day's dollar rate)

	<u>March</u>	<u>June</u>	<u>Sept.</u>	<u>Dec.</u>
1958	38.35	38.17	38.36	38.30
1959	38.62	38.60	38.56	38.51
1960	38.55	38.58	39.09	40.66
1961	39.65	39.25	39.63	38.89
1962	39.02	38.39	38.22	38.29
1963	38.60	38.58		

2. Difference between Hong Kong and London gold prices: end of month  
(In U.S. dollars per fine ounce at day's dollar rate)

1958	3.25	3.08	3.24	3.22
1959	3.54	3.49	3.44	3.44
1960	3.43	3.49	3.87	5.06
1961	4.56	4.17	4.44	3.74
1962	3.94	3.29	3.09	3.22
1963	3.49	3.50		

The first section of the above table shows the market price per fine ounce of gold in terms of U.S. dollars. The exchange rate used to convert the price from Hong Kong dollars to U.S. dollars is the rate prevailing between these currencies in the Hong Kong foreign exchange market at the end of each specified month. Within the past five year, the gold price in Hong Kong has varied from \$38.17 to \$40.66 per fine ounce. The difference between Hong Kong prices and world prices, as represented by the London price of gold, has varied from \$3.08 to \$5.06 per fine ounce. The high price of gold at the end of 1960 is explained by the sudden speculation against the dollar at that time, which caused the London gold price to rise from \$35.16 at the end of August to over \$40 in October. The London price dropped to \$35.60 by the end of the year, but the Hong Kong price was slower in coming down.

Gold stocks in the hands of Hong Kong dealers are reportedly minimal. Over the past 5 years, they have ranged from about 12,000 to 48,000 ounces. This is equivalent to less than a three-week supply. In general, gold stocks tend to fluctuate around an average of 24,000 ounces. However, because of the nature of the trade, they are subject to large and unexpected changes. At the height the speculation against the dollar in the last quarter of 1960, gold stocks rose four-fold from, roughly, 12,000 to 48,000 ounces. This indicates that the gold dealers were themselves speculating that the dollar price of gold would rise and were building up gold balances instead of selling gold.

Much of the gold that moves through Hong Kong is destined for people in the Indian subcontinent, where gold is highly valued for social and religious reasons and where it is used as a hedge against inflation as well as a means of caching undeclared taxable income.

Profits from the sale of gold to India greatly exceed those to other markets. Data available up to the beginning of 1961 from the American Consulate in Hong Kong indicate that such profits ranged from about US\$4.30 to over US\$14.30 per ounce of gold of .945 fineness. There is no indication that profits have increased as a result of the increasing price of gold in the Indian gold markets during the last half of the 1950's. This is probably due to the increased cost of smuggling gold to India resulting from the increased efforts of the Indian authorities to check this trade. It is also the result of the depreciation of the Indian rupee in the Hong Kong foreign exchange market (and in other free exchange markets).

Table 3

HK\$ per Indian rupee in Hong Kong exchange market  
(Monthly averages)

	<u>March</u>	<u>June</u>	<u>Sept.</u>	<u>Dec.</u>
1958	n.a.	1.179	1.184	1.182
1959	1.196	1.087	.976	.847
1960	.830	.823	.800	.950
1961	.920	.890	.859	.865
1962	.890	.842	.820	.927

In September, 1958, the price of gold was Rs. 325 per fine ounce in the Bombay market. At the Hong Kong dollar-Indian rupee exchange rate of 1.184 shown in Table 3, Rs. 325 were worth HK\$384.80 in Hong Kong. By September 1962, the Bombay gold price had risen to Rs. 374 per ounce, a gain of Rs. 49 over the price four years earlier. However, the 374 rupees obtainable for an ounce of gold in Bombay in September 1962 could be converted into only HK\$306.70 in Hong Kong -- HK\$78 less than could have been obtained from the sale of an ounce of gold for rupees, in September 1958.

In addition to the Indian subcontinent, Hong Kong exporters have shipped gold to a number of other destinations, including Singapore, Thailand, Indonesia, South Vietnam, Taiwan and Japan. Part of these gold shipments is for the use of the nationals of the countries of destination and part is rerouted to other areas, until it finds its way to its ultimate destination, which again is often the Indian subcontinent. Thus there are both direct and indirect trade channels by which gold from Hong Kong enters India, Pakistan, Burma and Ceylon.

The profits from exports to these other countries are much less than to the subcontinent. Available information indicates that in recent years profits from gold sales to Japan have ranged between US\$0.60 and \$2.20 per ounce. However in the first half of 1963, such profits reached US\$2.60 per ounce. In January 1963, exports of gold to Thailand brought the relatively high profits of US\$2.40 per ounce, as compared to little or no profits two years earlier. In 1961, profits on gold exports to nearby Taiwan ranged between US\$0.60 and US\$1.20 per ounce. Profits on the Singapore trade are generally among the lowest of all Hong Kong's customers and range around US\$0.45 per ounce, although in the spring of 1959, they reached US\$1.50 per ounce. The relatively low profits in Singapore may be due to the fact that much of this gold is actually in transit to Indonesia, Thailand, India and other Asian countries. Thus the Singapore purchaser is often a middleman who has to compete with merchants from Hong Kong selling gold directly to third countries. He cannot pay a high price for the gold he receives and still stay in business. Also the connections between Hong Kong merchants and those in Singapore tend to be stronger than those in other areas, partly because both ports are in the sterling areas, and so the financing of the trade is somewhat easier. Direct trade between Hong Kong and Indonesia has been sporadic but in June 1963, profits were estimated at the high level of about US\$6.50 per ounce.

There is little available information on the actual amounts of gold which are shipped to the various Asian destinations. In 1959, total monthly shipments of 12,000 ounces of gold to Japan were considered routine. Also at that time, India received 12,000 - 20,000 ounces per month from Hong Kong.

What is known as the broad trend in Hong Kong's gold exports to some of her customers. In the past five years, Hong Kong's gold shipments to certain areas have undergone profound shifts, which indicates that the gold trade is far from being stabilized or routine. Political disturbances in Asia and other parts of the world as well influence the demand for gold in Asia and hence Hong Kong's gold shipments. Economic difficulties which portend devaluation or tighter exchange controls also affect the Asian demand for gold.

At the beginning of 1957, Hong Kong's gold shipments to Indonesia averaged about 60-70,000 ounces per month. These were sharply reduced at mid-year when regulations were enacted permitting the police to search houses for hoarded gold, and when, as a result of the June exchange reform, the value of the rupiah - the local currency unit of Indonesia - depreciated sharply. In the spring of 1958, the rebellion in Sumatra and Celebes dealt another blow to the gold trade. Gold shipments were virtually halted until January 1959, and even then they were effected by way of Singapore. Towards the end of 1959, the gold trade to Indonesia suffered its severest setback following a series of governmental decrees aimed at the Chinese residents of the country. Many Chinese left Indonesia for Hong Kong,

Singapore and other parts of Asia - and took their gold out with them. Instead of gold going from Hong Kong to Indonesia, there was a backflow of gold into the colony. In April 1960, about 12-15,000 ounces of gold came into Hong Kong as a result of the Indonesian disturbances. As a result of these gold inflows, legal gold imports for re-export to Macao declined sharply by the second quarter of 1960, as indicated in Table 1 above. Throughout the remainder of 1960 and the next two years, there were few reports of gold shipments from Hong Kong to Indonesia. Singapore became the principal source for whatever gold went to that country. However, reports indicate that Indonesia is again becoming a direct market for Hong Kong gold.

In early 1959, the Japanese Government reduced the quota of industrial gold made available to manufacturers there. This was followed by an increased demand for gold smuggled from Hong Kong. Similarly, the nationalization of the banks in Burma in 1963 was reportedly accompanied by a withdrawal of funds to purchase gold as a hedge against possible adverse future developments. This made Burma a new market for Hong Kong gold shipments.

The Philippine experience is rather interesting. In April 1961, gold produced in the Philippines began to be imported into Hong Kong. Such imports reached a monthly total of over 20,000 ounces in June and July. By August, the gold imports fell to 10,000 ounces. In October, Philippine residents began to buy gold, possibly as a speculation that the Philippine peso would be devalued. In November, these gold purchases reached about 40,000 ounces. The peso was devalued and a free rate introduced in January 1962. A few months later reports indicated the resumption of gold shipments from the Philippines to Hong Kong.

The Cuban crisis in October 1962 had a severe - though short-lived - effect on the Hong Kong gold trade. On October 24, Hong Kong dealers sold over 12,000 ounces of gold, the largest amount sold in one day during the past 10 years. As a result of the large demand for gold, the price rose sharply, but then came down after a few days.

The most unsettling development in recent years and the potentially most serious for the future of the Hong Kong gold trade has been the establishment of Laos as a rival Far Eastern supplier of gold to the Asian area.

#### B. Laos and Thailand

The Kingdom of Laos would appear to be one of the least likely centers for supplying gold to Asian countries. In contrast to Hong Kong, which uses its widespread commercial and financial facilities to supplement and support its gold trade and which is easily accessible by air and sea, the Laotian economy is very underdeveloped. It is completely landlocked, being surrounded by Vietnam, Cambodia, Thailand and Communist China. Internal movement is limited by a paucity of usable roads. There is no airport which can handle the large planes coming from outside the area. There are few commercial banks in Laos, domestic or foreign, and the market for foreign exchange is quite narrow and prices are subject to sudden and large changes.

The groundwork for the Laotian gold trade was laid by the monetary reform of October 10, 1958. This established free convertibility of the Laotian kip. All licensing requirements and controls on financial transfers and gold movements were suspended. Thus gold could be freely imported and exported, subject to declaration for statistical purposes. On March 20, 1959, the custom tariff was revised and the ad valorem duty on gold imports was reduced from 20 per cent to a token 3 per cent. On July 8, 1959, under Law No. 216, gold was exempted from the 16 per cent business turnover tax. Thus the only remaining tax or control on gold was the low 3 per cent duty on gold imports. It was hoped that this elimination of restrictions would enable Laotian traders to compete successfully against suppliers from other areas.

The effect of this policy is seen by the following table on legal gold imports into Laos.

Table 4

Gold imports into Laos  
(thousand ounces)

	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>		<u>4Q</u>	<u>Total</u>
1959	0	34	149		216	399
1960	276	233	---	29	---	538
1961	156	221	207		262	846
1962	197	187	164		98	646
1963	0	46				

The first legal shipment of gold into Laos arrived on May 12, 1959. In general, the gold is flown to Don Muang Airport, near Bangkok, and transferred to a smaller plane for Vientiane, Laos. Such imports increased throughout the remainder of 1959 and were at a high level in the first half of 1960. It is interesting to note that once restrictions impeding gold imports were relaxed, the number of individuals taking advantage of the prospect for high profits increased to 14 by November 1959. However by the middle of 1960, there were only about 5 declared importers in the gold trade.

The coup d'etat on August 9, 1960, and the resulting suspension of free convertibility of the kip on September 12 reduced the inflow of gold to a trickle during the second half of 1960. On January 5, 1961, the free convertibility of the kip at the rate of 80 kip = US\$1 was restored and gold imports resumed. As Table 4 indicates, 1961 became a banner year for the Laotian gold trade.

On January 5, 1962, exactly one year after the restoration of convertibility, the National Bank of Laos halted sales of foreign exchange following the temporary suspension of U.S. economic assistance. In March, the Bank announced that gold could continue to be traded freely throughout Laos, but that, as implied by the January measures, the bank would not grant any foreign exchange to finance the gold trade. Despite this second suspension of convertibility, gold imports continued to take place on a rather substantial scale during the

first three-quarters of 1962. This indicates that gold importers were not dependent upon the National Bank for their foreign exchange, but could obtain such exchange from other sources including the profits derived from past gold exports. It is believed that only \$1 million worth of gold per annum (under 28,000 ounces) was financed locally.

On November 7, 1962, the Government forbade the import of bulk gold except by special permission. This was done in conjunction with efforts to stabilize the kip-dollar rate. The free market rate for the kip had risen from about 84 per dollar when the Coalition Provisional Government of National Union was established on June 25 to around 150 by early November. However, since most of the gold was not financed locally, the ban on gold imports appeared to have only a slight effect on the kip-dollar exchange rate.

In April 1963, the Laotian Government gave the newly-formed Bank of Laos, a private commercial bank, exclusive permission to import bulk gold, and up to mid-year it had imported 46,000 ounces of fine gold valued at over \$1.5 million.

An indication of the extent to which Hong Kong gold traders were affected by the Laotian competition is shown by the decline in Macao's imports of gold since the Laotian entry into the gold trade.

Table 5

Gold imports: Macao and Laos  
(thousand ounces)

	<u>Macao</u>	<u>Laos</u>	<u>Total</u>	<u>Laos as % of Total</u>
1958	1,232	0	1,232	0.0
1959	1,437	399	1,836	21.7
1960	1,364	538	1,902	28.3
1961	980	846	1,826	46.3
1962	985	646	1,631	39.6

By 1961, almost one-half of total recorded gold imports into these two areas went to Laos. The large decline in Macao's gold imports in that year appears to some extent, to be a result of a diversion of the gold trade from Hong Kong to Laos. As indicated earlier, it may also reflect increased imports of gold into Hong Kong directly from Middle Eastern countries, instead of via Macao.

Most of Laotian gold imports have come from the United Kingdom. Between 1959 and 1962, the United Kingdom exported 1.7 million ounces of gold to Laos, equivalent to 69 per cent of that country's total legal imports. Switzerland and France also supplied gold.

The import of gold has proven to be a very profitable venture for the Laotian Government. The 3 per cent import duty, while not a large imposition on gold traders, has enabled the Government to obtain sizeable revenues, as shown in the following table.

Table 6  
Budgetary impact of gold imports in Laos  
3% duty on gold imports

	<u>Value (m. kip)</u>	<u>% of custom revenues</u>	<u>% of total budgetary revenues</u>
1959	33.8	9.4	6.1
1960	44.2	14.0	9.2
1961	73.2	19.8	13.5
1962	56.9	13.6	8.8

By 1961, the year of the largest gold imports into Laos, customs revenues from such imports reached 73 million kip and accounted for one-fifth of total customs receipts and 13.5 per cent of total budgetary receipts. Indeed in that year customs receipts from gold imports exceeded total revenues from direct taxes and were about equal to total revenues from indirect taxes. Thus the budgetary position of the Royal Laotian Government benefited considerably from gold imports, and the Government suffered a significant loss of revenue as a result of the curtailment of the gold trade in 1963.

Almost all of Laos' gold imports have been reexported to other countries in Asia, judging from data on gold exports for 1959 and 1960, the only years for which figures are available.

Table 7  
Laos: Gold imports and re-exports  
(thousand ounces)

		<u>Imports</u>	<u>Exports</u>	<u>Exports as % of Imports</u>
1959	2Q	34	31	91.1
	3Q	149	123	82.6
	4Q	216	194	89.8
	Total	399	348	87.2
1960	1Q	276	249	90.2
	2Q	233	210	90.1
	3Q & 4Q	29	26	89.7
	Total	538	485	90.1

During these two years, official gold exports were equal to about 90 per cent of imports. It is believed that most of the exports were smuggled into Thailand, although a part probably went to Cambodia and Vietnam. From Thailand part of the gold possibly went to the Indian subcontinent. However, the Thais may have been the ultimate buyers of a large part of the Laotian gold. This is a reasonable assumption since Thailand restricted the legal imports of gold and the domestic price of gold exceeded the Hong Kong price.

In 1957, the value of legal nonmonetary gold imports into Thailand totaled US\$5.1 million. This fell drastically the next year to only \$1.1 million, equivalent to about 25,000 ounces. It was thought that this decline reflected an expansion in unauthorized gold imports. To encourage an increased flow through legal channels, the Thai authorities on June 6, 1959, eliminated the 25 per cent import duty on gold, reduced the purchase tax on gold (and silver and platinum) from 10 to 3 per cent, and reduced the purchase tax on ornaments made from these metals from 10 to 5 per cent.

However, an import fee of US\$2.80 per ounce of gold was maintained and this proved to be the key stumbling block to the revival of legal gold imports. This import fee plus the remaining purchase tax were still sufficiently large, especially when compared with the low import duty of 3 per cent instituted at the same time in neighboring Laos, to inhibit legal gold imports. Trade statistics show no recorded gold imports into Thailand throughout 1959, while as shown above, gold imports into Laos rose rapidly. The influence of the Lao gold trade on that in Thailand may be discerned from movements on the price of gold in the Bangkok gold market. Prices are traditionally quoted in Baht per baht-weight, which is equivalent to 15 grams or .482 troy ounces. The Baht is the local currency unit of Thailand.

Table 8

Average price of gold bullion in Bangkok  
(U.S. dollars per fine ounce at free exchange rate)

	<u>First</u> <u>Quarter</u>	<u>Second</u> <u>Quarter</u>	<u>Third</u> <u>Quarter</u>	<u>Fourth</u> <u>Quarter</u>	<u>Year</u>
1958	43.25	42.16	41.29	41.27	41.97
1959	41.93	40.52	39.36	39.46	40.26
1960	40.01	39.20	40.78 <u>a/</u>	43.80 <u>b/</u>	
1961	42.20	39.86	39.76	39.27	40.30
1962	40.93	39.50	39.32	40.44	40.05
1963	41.89	40.34			

a/ Mid-August.

b/ End of October.

During 1958 and the first quarter of 1959, the price of gold in Bangkok averaged close to \$42 per ounce. This price was \$3.50 per ounce more than the prevailing market price in Hong Kong and almost \$7.00 more than in London. Legal imports into Laos began to arrive in May 1959. In the second half of that year, the price of gold in Bangkok fell and the price differential vis-à-vis Hong Kong was reduced to under \$1.00 per ounce.

Early in 1960, the Thai authorities decided to encourage the legal import of gold into their country, possibly in order to reduce the large inflow of smuggled gold from Laos which was depressing the Bangkok gold market. Effective March 25, the \$2.80 per ounce tax on gold imports was reduced to \$1.75, and the Minister of Finance was empowered to grant exemptions from this import tax. For the period June 9 to December 31, 1960, the Ministry of Finance authorized to licensed dealers the tax free import of gold up to 80,000 ounces.

In addition in mid-June, Thai police raided about 20 gold shops and commercial firms in Bangkok and about 30 other shops in the north-east provinces, bordering Laos. Reportedly, over 1,000 ounces of smuggled gold were seized and several merchants were fined and arrested, and some deported, presumably to India. These raids caused an increase in the price of gold in Bangkok during the rest of June and July, and made the legal import of gold more attractive.

The disruption in the Laotian gold trade caused by the coup d'etat in early August and the speculation against the dollar in October also served to raise the gold price in Thailand even further.

Legal gold imports into Thailand resumed in June 1960 and by the end of the year totaled 79,025 ounces, (U.S.\$2.9 million) a shade under the prescribed quota. Such imports reached the quota of 180,000 ounces (US\$6.4 million) in 1961 and of 200,000 ounces (US\$7.1 million) in 1962. In the first half of 1963, they were slightly under 100,000 ounces.

Given the Thai Government's policy of maintaining a restrictive import quota on gold, the future of the Thai gold trade appears to be tied up with conditions in Laos. Legal imports into Thailand have not been as large as those into Laos. In 1962, Thailand's best year and a less than record year for Laos, Thailand's gold imports were still no more than one-third those of Laos. However, if the Laotian trade fails to survive the current economic and political difficulties in that country, Thailand may stand to gain. At times of stress in Laos -- such as the coup d'etat in August 1960, the suspension of convertibility in January 1962, and the prohibition of gold imports in November 1962 -- the price of gold tends to rise in Bangkok (See Table 8) and profits of Thailand's gold importers are consequently increased.

However, unless the gold import quota is also increased, the resulting high prices would tend to attract undeclared gold imports from such places as Hong Kong. In the past, a low price of gold in Bangkok, such as that obtaining in the last part of 1960, has inhibited the illegal import of gold from Hong Kong. Thus disruption of the Laotian gold trade would directly benefit the Thai gold trade and indirectly, that of Hong Kong and Macao. Also Hong Kong and Macao and

other gold suppliers would benefit by being able to provide gold to third countries formerly supplied by Laos, unless, of course, Thai gold merchants were able to absorb this trade for themselves. Contrariwise, a resurgent Laotian gold trade would tend to affect adversely the gold trade in Thailand and Hong Kong.

It need not be only the Laotian gold trade which would disrupt other Asian gold suppliers. Just as Laos suddenly rose as a significant gold trader, so too may other governments seize upon the possibilities of making quick profits for their nationals and for themselves. Kuching, Sarawak imported almost 300,000 ounces of gold from the United Kingdom in 1961 as compared to no imports two years earlier. This spectacular rise, for reasons still unknown, petered out in 1962. If it had continued, Kuching might have threatened both Hong Kong and Laos as the chief Far Eastern supplier of gold.

Despite the uncertainties of how the gold trade will be distributed among the present and potential Far Eastern suppliers, there is little doubt that the trade will continue as long as political instabilities exist, as long as exchange controls are used to support overvalued exchange rates, and as long as social and religious traditions favoring the use of gold ornaments are maintained.