

## **India & the World of Gold**

By D.R.Pendse

I am not wealthy enough to afford any big personal investment portfolio. As an individual, I have also believed that gold is a relatively idle and non-productive asset and need not be included in any tiny personal portfolio. May be, I am making a virtue out of a necessity. Luckily, my wife is a gem of a person. I have been able to convince her that she is herself worth her weight in gold to me and she need not block our funds in acquiring any more gold as an investment.

Leaving such eccentric exceptions apart, the lure of gold to every Indian is well known. We, the Indian people, seem to differ in everything: in religion, caste, language, life style, eating habits, spending and saving habits, types of homes, dress, in economic status and so on and so forth. But if there is one thing that binds all of us, it is the lure of gold. Every Indian possesses some gold; he [more so, she] wants to preserve it and desires to own and possess yet some more.

This lure of gold is centuries old. No body really knows how much gold we all have in India. The official guess is that the total stock of gold in India is about 10500 tonnes. Mr Jamal Mecklai, in of his famous articles published in the Economic Times argued some time ago that the total stock is close to 30000 tonnes. However, India produces barely two tonnes a year. Therefore, for centuries, we have been importing gold from all over the world. In 1999, we imported about 683 tonnes.

Happily, India is extremely important in the world of gold. In 1999, gold mines all over the world produced 2576 tonnes of gold. Of that, as stated above, 683 tonnes, or about 26.5% of the world's mine production, was imported and absorbed into India for use by Indians (excluding gold used in jewellery exports). India is thus easily the world's No.1 consumer for gold.

Just as India is important to gold, gold is also important to India. The 683 tonnes of gold that we imported last year are valued at approximately U.S.\$ 6.6 billion. That is what we Indians paid for our lure of gold in one single year. Moreover, it being an import, we paid much of it in convertible foreign exchange. . There is only one other item, which costs us singly more in foreign exchange to import, and that is 'crude oil and petroleum products'. We spent about U.S.\$ 10 billion on their imports.

Two features of the world's trade in gold are particularly striking: First, the central market place for gold is neither in the producing countries nor in the consuming countries. The market place is principally in London and Switzerland.

Secondly, more and more of the world's gold seems to be moving away from the industrial world into the developing countries. I referred to India at the outset. China too, in addition to keeping all of its own newly mined production [about 160 tonnes in 1999], seems to be absorbing significant imports. It is worth noting that not only the treasury gold but gold in the form of jewellery or gold bullion held by the people at large, also seems to be moving from the industrial to the developing world.

Why do we in India have such a huge appetite for gold? This has been a fascinating subject of continuing study for me. However, let me not bore you all with its details today. Suffice it to note that even as a commodity, gold is unique. It has very high value in small weight. It is permanent. However, - unlike stones or diamonds, - gold can be converted into ornaments or jewellery and can again be re-converted back into gold bullion and this can go on indefinitely. On top of it all, gold has an elegant practical use- Adornment. As if all this is not enough, gold is bought, stored and used by the central banks of practically each and every country in the world as a part backing to its currency and is universally accepted as a mode of settlement of international financial transactions.

How long will then this enormous appetite for gold continue to be as strong in India as it has been in the past? What, e.g., is the 50- year outlook? The question is of understandable practical importance to the gold industry worldwide. It is also a complex one, there being several imponderables. I can venture to speculate on only a couple of them.

Many other and liquid, mobile, and marketable paper assets are now available. In fact, gold dominated in the past, partly because there were no such paper assets. Gold has been so far the common man's only foreign exchange. Give him some truly convertible foreign exchange and he will presumably give up some of his gold. This suggests that the gold appetite may be a bit on the wane.

On the other hand, with hallmarking, transparency, and better market information, gold is less risky to hold now. If people held gold even with these risks in the past, their appetite would be sharper with the risks curtailed.

Similarly, it would be unrealistic to expect unaccounted money to vanish altogether from any system, though policy attempts are on to cut its significance to size. Even then, since the economy continues to grow, any sizeable reduction in the nominal quantum of unaccounted money will be slow to be achieved.

Both these factors seem to suggest that the appetite will be maintained.

Considering these and other factors, I venture to suggest that in the next fifty years or so, there will be hardly any erosion in India's gold appetite.

I am making this prediction with some personal comfort, because I know that I will not be around then to face the blame even if I were to be proved very wrong!

A final thought: As was seen earlier, India stands out as the world's No.1 market in gold. However, do we exploit to our best advantage our pre-eminent position? I doubt it. Let me illustrate this with reference to crude oil. Saudi Arabia accounts for about 13% of the total world production of oil and the U.S. for another about 11%. However, look at the pre-eminent position these countries enjoy in the world of energy economics. Alas, India does not wield a proportionately critical influence in the world of gold.

Deregulation, liberalisation and structural economic reforms have meant the opening up of the Indian economy so that it integrates with the world economy. Admittedly, in many cases, this involves the Indian economy adjusting itself to world practices. In a few cases, as in case of gold, India's policy deserves to be directed with a view to securing the maximum mileage out of the country's pre-eminent position in the world of gold. Only then, the Indian consumer of gold will receive the benefits remained denied to him all these years.

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**Post Script:** I am soon going to China as an invited speaker, [apparently the only speaker from India], at the " 4<sup>th</sup> RNA China Gold & Precious Metals Conference." It will be held at Zhaoyuan City in the province of Shandong. The theme of the conference is " Deregulation of Chinese precious metals trade and industry- New challenges, New opportunities" The objective is two-fold: First, to promote an understanding of the Chinese precious metals market; and secondly, to serve as a forum for Mainland Chinese to learn more about the international market practice. My speech comes presumably in pursuit of the second objective. My subject will be: "Deregulation in India- the World's No 1 Gold Market." It is good to see that there is increasing interest worldwide about India in the context of Gold. Not a day too early!

**Mumbai ; August18, 2000.**

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