

Unquenchable Thirst for Gold : India's Gold Problem

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Imports of gold into India have been a drag on the rate of economic development of the country for the last few centuries. India is a poor producer of gold and gold in India has been an imported or foreign commodity, a fact that had not been understood neither by the proponents of the old Swadeshi Movement nor the present day Swadeshi Manch. Gold imports absorb a significant part of the meagre savings of a poor country in an unproductive way and also lead to increased foreign indebtedness. A statistical exercise for the period 1873-98 shows that if during that period India had refrained from importing gold the rate of increase of GDP would have been significantly higher and foreign indebtedness of India significantly lower than what it was. Indian demand for gold is mainly for making ornaments to wear and seems to be deeply embedded in Indian culture. It is very difficult to control. A ban on gold imports by Government is largely ignored as the history of the period 1947-91 shows. It only encourages smuggling. During 1981-1990 smuggled gold into India accounted for the loss of \$ 14 billion in foreign exchange. If gold had not been imported during this period, there would have been no foreign exchange crisis in 1991 and no need would have arisen for borrowing \$ 3-4 billion from the World Bank. The gold imports seem to serve as a glittering border to our poverty, a cultural cost which makes our fight against poverty so handicapped.

Has anybody noticed that one of the several consequences of the programme of liberalization of the Indian Economy since 1991 has been the emergence of India in the world gold market as the largest importer of gold during the post-1991 period? The annual imports have averaged about 400 tons¹ and according to the World Gold Council the demand for gold in India is increasing at the rate of 20 tons per year. Almost half of these imports are illegal or smuggled gold. Much of the legitimate or legal imports are through and by NRIs, who though residents abroad, seem to have carried with them the same bug for gold as Indians at home. Indians have always loved gold and are very touchy about it. Thus, when recently (July 1991) because of the foreign exchange crisis, 47 tons out of the total stock of 351 ton gold held by the Reserve Bank of India were temporarily moved to London (Bank of England) to tide over the situation, there was public alarm in the country and there were anxious inquiries in Parliament and the

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¹ The measure of weight used in this paper, unless otherwise specified, is the metric ton (=1000 kgs).