

GOLD SMUGGLING AND ECONOMIC IMPACT

Speech by Dr. K.N.Raghavan

He started with Current Account.

As per him it is the Sum of Balance of Trade + Net Income from abroad+ Cash Transfer

Balance of Trade is Difference between value of Export or Goods Services and their Import. Factor is net of interests earned from investments abroad and inward remittances against interest payments and outward remittance. Cash Transfer usually in form of Aid/Donation



Principal indicator of health of nations' foreign trade.

When balance is positive there is current account **Surplus** (CAS). When negative current account **Deficit** (CAD)



India has been facing CAD every quarter since March 2009. CAD Position in India

<u>YEAR</u>	<u>CAD(USD Billion)</u>
2008-09	22.6
2009-10	38.7
2010-11	45.3
2011-12	74.3
2012-13	89.5
2013-14 (till 30.06.2013)	21.8

Reasons for CAD

- ❖ Highest current surplus recorded in January March 2004. USD 7.4 Billion
 - ❖ Negative Balance of Trade
 - ❖ Expansion of Economy
 - ❖ Foreign Exchange Manipulations
 - ❖ Over Spending
- High dividend/ interest on foreign investment

Impact of High CAD

- Net outflow of Foreign Exchange (mainly USD)
- Depreciation of local/home currency
- Inflation
- Depletion of foreign exchange reserves
- Reduction in credit ratings

Comparison with other Economies CAD as % of GDP

Brazil	(-) 3.60
Russia	(+) 4.40
India	(-) 4.80
Indonesia	(-) 0.20
Malaysia	(+) 12.60
China	(+) 2.30
USA	(-) 3.00

CAD Breakup India

April-June 2013	IMPORTS(In Billion USD)	EXPORTS (In Billion USD)
GOODS	124.4	73.9
SERVICES	19.7	36.5
INT DIVIDEND	7.4	2.5
REMITTANCES	1.3	18
TOTAL	152.7	130.9

Net CAD is USD 21.8 Billion

Main Contributors are Petroleum Product – USD 42 Billion and Gold- USD 7.3 Billion

Details of Gold Import into India

Year	Quantity (in MTS)
2010	970
2011-12	1067
2012-13	835
2013-14 (till 30.06.13)	330

Measures to Tighten Gold Imports

- Linking all Imports to Exports (80:20)
- Increase duty on primary Gold (to 10%)
- Increase duty on Ornament gold (to 15%)

Target

- Promote Exports
- Restrict Gold Imports to 550 MT
- Restrict CAD to USD 56 Billion
- Restrict CAD to within 3% of GDP

Impact on Restrictions on Gold Imports

Period	Import	Export	Deficit	Value of Gold Imported
April-June 2013	124.4	73.9	50.5	7.3
July-Sep 2013	107.9	79.2	28.7	1.2

Why Gold Smuggling

- To meet demand for Gold in India
- To circumvent/evade Customs Duty
- A part of Hawala Transactions
- Money Laundering
- Combination of reasons cited above

Margins involved in Gold Import Smuggling

Price of Gold in Dubai	-	152.06 UAE Dhms/gms
Conversion Rate	-	17.60 Rs/Dhms (Hawala Rate)
Price of Gold in Dubai	-	2676 Rs/gms
Customs Duty@ 10.3%	-	266.9 Rs/gms
Price of Gold in India	-	3100 Rs/gms
Profit Margin (Gross)	-	157 Rs/gms
Profit Margin (Gross)	-	1,57,000/Kg
Profit Margin (Gross) without Customs Duty -	-	423900/Kgs

Modus Operandi Involved

- Using carriers through Airports
- By concealments in gadget through Cargo/ Unaccompanied Baggage
- By Sea route (Boats/ Dhows

Economic Impact due to Gold smuggling

- Loss of Revenue
- Drop in Remittances
- Growth of parallel Economy and Underworld

Challenges Faced

- Creating Infrastructure to Combat Smuggling
- New Gangs/ Syndicates emerging
- Needs Clarity about policy in Long/Medium Term

Dr. K.N. Raghavan, Profile

Dr. K. N. Raghavan, an IRS officer of 1990 batch is a dynamic, energetic and multifaceted personality. He is a qualified doctor, an international cricket umpire, a writer who has penned two books on history and is currently the Commissioner of Customs in Kochi. He joined the Indian Revenue Service when he was doing his Post Graduate studies in Physical Medicine. Before assuming the office of Commissioner of Customs, Cochin, he has held important responsibilities as Assistant Collector- Central Excise, Dy. Director- Revenue Intelligence, Additional Director- Customs, Additional Commissioner- Customs.

Dr K N Raghvan was also the MD of the Kerala State Cooperative Rubber Marketing Federation and CEO of Cooperative Medical College, Kochi. He was also the First Secretary- Commerce – Indian High Commission, Singapore.

A person of diverse talents Dr. Raghavan is also actively involved in sports. He is an internationally accredited umpire for cricket tournaments and has officiated around 5 ODIs, not to mention numerous Ranji, Duleep, & Deodhar Trophy matches. Dr. Raghavan has also authored two books, one on cricket and the other on history. His 2012 book, 'Dividing Lines: Contours of India China Conflict – about the origins, events, and impact of the India-China War of 1962,' - went on to acquire critical acclaim as the book broke several myths that India's political and military establishment had promoted to cover up a massive defeat.