

The Economist

Gold trade in Thailand

Bullion backwash

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You may be able to use bitcoins on Amazon and Ebay. Will gold be next?

An Indian man in Bangkok's Chinatown bought two gold bracelets on Yaowarat Road in Bangkok for \$15,000. In his native Mumbai they are worth \$16,500. They can travel in a computer bag or "if you are really worried about customs", he says pointing at a shop which sells plain golden necklaces, "you buy those and put them around your wife's neck."

Earlier this year the Indian government imposed quotas and increased taxes on gold imports, but it takes more than that to limit Indians' love of gold. Although the country's statisticians report that Indians officially buy a lot less of the precious metal—148.2 tonnes from July to September, a third less than in the same period last year—there has been a surge in gold smuggling.

Customs officials at airports in India, Nepal and Bangladesh are reporting a spike in seizures of gold originating from places such as Abu Dhabi, Bahrain and Dubai. What happens along India's 15,000km land border and 7,500km coastline is anyone's guess. But the effects of India's attempts to curb gold imports are most widely felt in Thailand.

With India's market ring-fenced, more physical gold has made its way to Thailand. In the most recent quarter demand from Thai consumers surged 125% compared with the same period last year, to nearly 36 tonnes—faster than in any other country. And demand from investors has grown more than 80% this year. The World Gold Council attributes the increase "in no small part due to Thailand being used as a route to channel gold into other markets, notably India and Vietnam."

But other factors play a role too. Gold has become cheaper recently, the Thai economy and the baht are wobbling, and real short-term interest rates are close to zero. In addition, a period of relative political stability has come to an abrupt end: Thailand has recently seen the biggest street protests since 2010.

Thailand has its own experience with interventions that create unwanted side effects. The Thai government pays high prices for rice produced by local farmers, who are an important political constituency. But their colleagues in Cambodia, Myanmar and Laos have long figured out that by shipping their rice across the border to Thailand, they can pocket a multiple of what it is worth back home. Thai gold smugglers now play this trick on India.

Business has been swift on the top floor of one of Bangkok's glitziest shopping malls where gold traders and banks make their case for investment in gold. Trading screens outnumber gold bars, of which a few are on display to remind investors of the stuff. But this should count as progress compared to the days when gold shops made a killing in trading gold bars bartered for opium 850km north of Bangkok where Thailand, Myanmar and Laos meet—an area which still is called “Golden Triangle”.