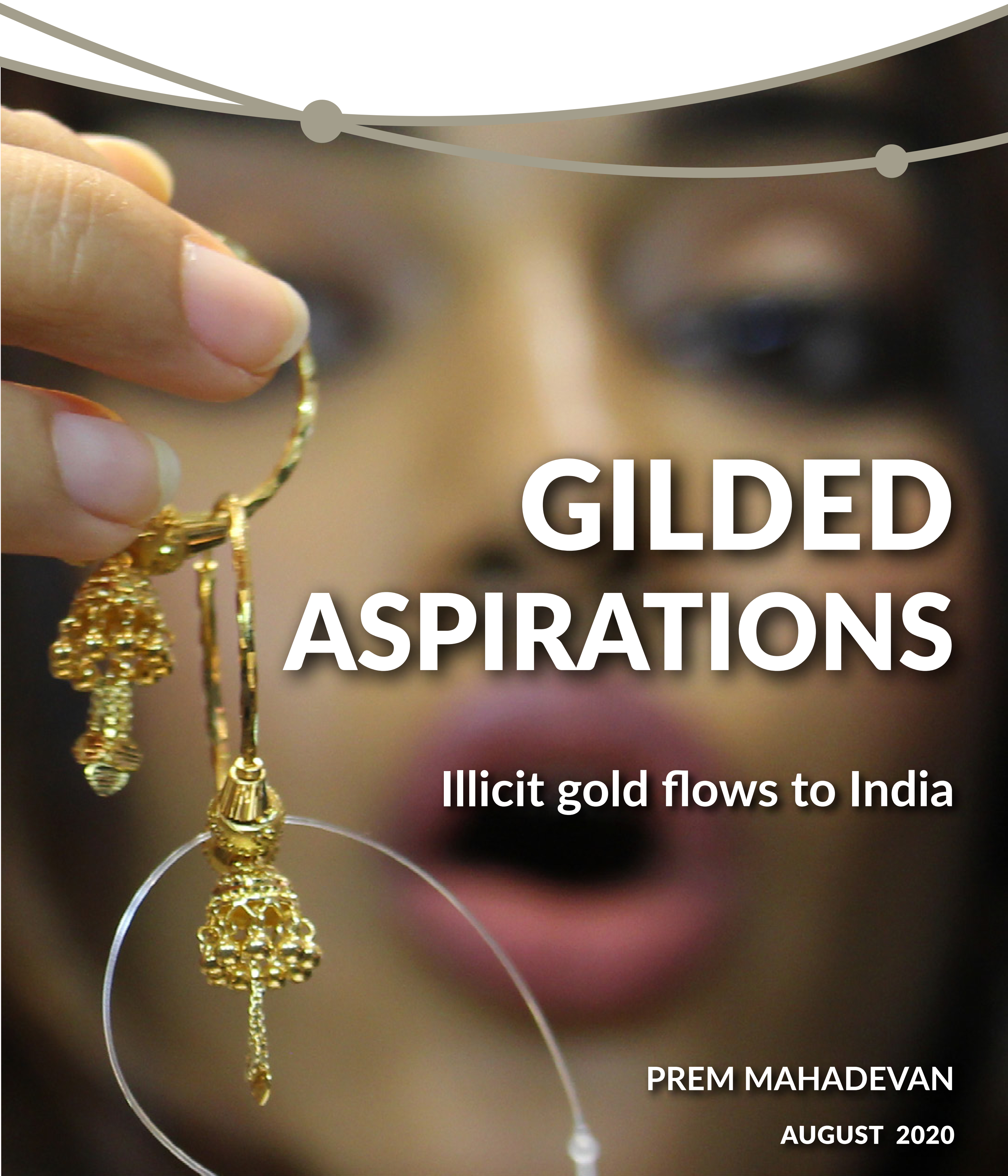
RESEARCH REPORT

GLOBAL INITIATIVE
AGAINST TRANSNATIONAL ORGANIZED CRIME



# GILDED ASPIRATIONS

## Illicit gold flows to India

PREM MAHADEVAN

AUGUST 2020

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## ABOUT THE AUTHOR

Before joining the GI–TOC, Prem Mahadevan was a senior researcher with the Center for Security Studies at the Swiss Federal Institute of Technology. He specialized in research on organized crime, intelligence and irregular warfare. He has co-authored policy studies for the Swiss foreign ministry and written a book on counter-terrorist special operations for the Indian Army. His academic publications include two books on intelligence and terrorism.




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# CONTENTS


# EXECUTIVE SUMMARY

During the 1970s, Indian films depicted the archetypical mafia don as a gold smuggler with a taste for white suits (a sign of prosperity on the country's dusty streets).[1] The don was occasionally accompanied by a frivolous young woman whose comical name, Mona, conveniently rhymed with *sona*, a Hindi word for gold. Between Mona and sona, the successful Indian mafiosi lived large in the popular imagination.[2] Although Bollywood caricatures can stretch the credibility of any debate, the fact is that gold has long been intractably connected with both illegality and social aspiration in India.

India's socio-economic realities have evolved significantly over the past four decades, particularly as far as attitudes to wealth accumulation are concerned. Gold is today no longer negatively associated with crooked businessmen, but rather positively with the consumerist aspirations of middle-class India. It is used to project enhanced family status at events such as the 'great Indian wedding', and is perceived as a high-return investment and a hedge against inflation.

Demand for gold has consistently risen 14% annually since 2001, with prices altogether increasing eight-fold.[3] The Indian love affair with gold continues even as the economy strains under the weight of gold imports that degrade the fiscal balance. Gold is metaphorically to many Indians what opium was to the Chinese in the 19th century: an addictive escape from institutional decay and social stagnation. But hoarding gold pits the individual and their family against the government and its need to keep liquidity flowing in order to grow the economy.

This report examines three questions:

1. Why did an illicit economy around gold imports emerge in India?
2. What are the methods and routes used by smugglers?
3. Why has the illicit economy proved resilient to countermeasures by the government?

The persistence of gold smuggling to India is connected with four factors: cultural preferences for an asset that can lie beyond easy reach of the taxman; a lack of equally lucrative investment alternatives; an abundance of 'black money' generated by the informal (i.e. unorganized) sector; and, finally, high import taxes aimed at raising government revenue and reducing private purchases of gold. Yet, dependent as they are on gold as a guarantee of personal wealth and/or business success, both impoverished and wealthy sections of Indian society defy government strictures on its import. Thus, smuggling networks thrive as a result of perennially high private demand.

## Research methods

This paper is based on the analysis of news reports in the Indian English-language media, as well as 13 interviews conducted in India and Dubai. The people interviewed were either observing the illicit gold trade in a local capacity, or countering it on behalf of the Indian government. Twelve of the interviews were conducted by a consultant from the Global Initiative Against Transnational Organized Crime (GI-TOC) in the southern province of Kerala, which accounts for the bulk of gold demand on a per-capita basis. The interviews were conducted in the local language, Malayalam, as some interviewees, including government officials, were reluctant to express themselves freely in English. One English-language interview took place in the eastern city of Kolkata, which is a transhipment hub for gold arriving from South East Asia. The cumulative value of these interviews was to help in cross-checking the factual accuracy of published news reports, as well as providing further insights and local colour to the analysis.

◄ A jewellery shop employee displays 24-carat gold bars in Ahmedabad. India's economy expanded rapidly between 1991 and 2016, but the speed at which new entrants to 'Middle India' bought up gold was even greater.
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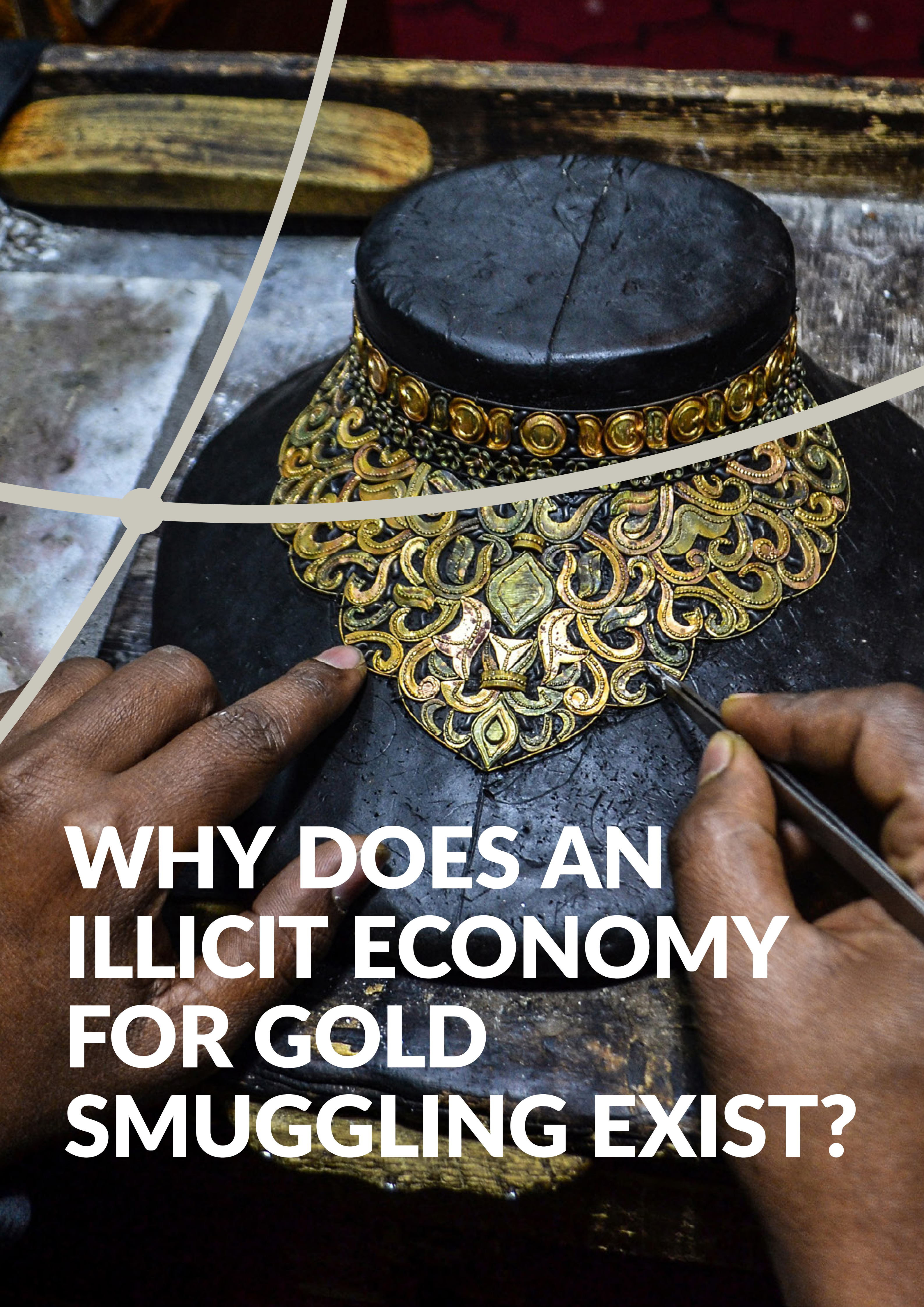

# WHY DOES AN ILLICIT ECONOMY FOR GOLD SMUGGLING EXIST?

There are two factors that created an illicit economy centred around gold in India: high import taxes and a need to launder 'black' or untaxed money held outside the formal banking system.

## Import controls

Gold has been perceived by some economists, such as John Maynard Keynes, as an unproductive asset when locked in private holdings.[4] Once stashed away as jewellery or bullion, it does not circulate as currency. Consequently, there is no multiplier effect generated from its value. Although it can act as a release valve for inflation by diverting private spending away from vital commodities, purchases of gold are equated with personal vanity rather than collective benefit. This is because, in certain developing countries such as India, the majority of gold is 'consumed' in the form of jewellery, often doubling up as an investment against future economic uncertainty. When such gold has to be imported, as with India, its negative effect is compounded.[5] Payments for gold imports require selling local currency on the international market, which depreciates the currency's value and – depending on the scale of imports – potentially creates a current-account deficit if the demand for gold is price-inelastic.

Gold smuggling to India was not a new phenomenon when the country became independent in 1947. Then, as now, smugglers often used women as couriers because law-enforcement officials were hesitant to interfere with a woman's 'right' to wear gold jewellery on her person.[6] (There would have also been the operational reality that women are – even as late as 2020 – under-represented in the Indian law-enforcement apparatus, which would have meant a shortage of female

A goldsmith crafts a necklace at a workshop in Srinagar. In India, most gold is consumed in the form of jewellery for personal use, removing it from the market as a circulatory asset.
*© Saqib Majeed/SOPA Images/LightRocket via Getty Images*


Jewellers protest against the excise duty imposed on gold and diamond jewellery in March 2016, New Delhi, India.
*© Sanchit Khanna/Hindustan Times via Getty Images*

personnel to search couriers.)[7] In 1958, the head of the country's reserve bank – the leading financial authority – declared it necessary to wean the population away from hoarding gold.[8]

This proved difficult until after a short war with China in 1962, when an ill-prepared and under-equipped Indian Army suffered a predictable defeat. The political shock of having lost an armed conflict allowed the Indian government to finally act. As defence expenditure was doubled (from 2% of gross domestic product in 1960 to 4% four years later), the government exercised its prerogative to clamp down on extravagant and unproductive private spending.[9] Under the Gold Control Act, individual possession of gold was strictly limited, in order to save scarce foreign exchange to modernize the armed forces. The act remained in force until the early 1990s, when a wider liberalization of the Indian economy, announced in 1991, led to it being repealed.[10]

## Relationship between taxes and smuggling

For much of the 1990s and the first decade of the 2000s, import tax (technically known as customs duty) on gold was 1%. This low rate meant that gold smuggling became unviable even as legitimate purchases increased, particularly from 2002 when the economy started doing well on the back of foreign investments. In January 2012, the government started to raise the duty rate again, in an effort to generate revenues. It first doubled the duty to 2% and then again doubled it in March 2012 to 4%. The following January, the rate was increased to 6% and that following June, to

8%. It was at this time that smuggling, which had begun to re-emerge in the preceding months, noticeably spiked while legitimate imports dropped by more than 80% when compared to May 2013.[11]

During the 2013/14 fiscal year, estimates of gold smuggled to India as well as actual seizures by Indian customs officials were roughly 300% higher than during the previous fiscal year.[12] In August 2013, import tax on gold was raised by a further 2%, thus bringing it to 10%. There it stayed until July 2019, when yet another tax raise brought customs duty on gold to 12.5%. Meanwhile, in July 2017 the Indian government introduced its so-called Goods and Services Tax (GST), increasing the sales tax on gold from 1.2% to 3%.[13] Hence, at the time of writing, there is a price difference of 15.5% between the official buying price of gold in India, and that in the international market.[14] Evading customs duty on gold deprives the government of annual revenues in the vicinity of US$1.3 billion.[15]

*The Indian love affair with gold continues even as the economy strains.*

Much of the smuggling activity that followed the raising of customs duty took place after the duty reached 10%, thus creating a fairly large margin for illicit gold traders to operate within. Gold that was purchased at international rates overseas could, upon being smuggled to India, be sold at a mark-up of between 7% and 8% and customers would still buy large quantities, satisfied that they were getting a discount on the official market price. This fed the addiction which the emerging 'middle class' had long had for gold as a store of value, even if the product itself added little to the economy.

## A lucrative investment for the political 'middle'

Between 1991 and 2016, the Indian economy grew by 5.2 times in constant US dollars.[16] But even as financial institutions were strengthened, the middle class (actually a misnomer, since it was more like a well-off section of the working class, and thus could be called 'Middle India') bought up gold at twice the rate that it did stocks. The mechanization of agriculture in the 1960s and slow dismantling of labour unions during the 1990s boosted the wealth of urban traders at the expense of the poorer sections of society. Thus, those segments of the Indian populace that were most likely to hoard gold out of social conservatism as much as any other factor, found their buying power strengthened after the 1991 reforms.[17] Liberalization unleashed productive energies from Middle India, but it also fostered pseudo-bourgeois extravagance within an already acquisitive culture.

While the economy expanded at a rapid pace, the speed at which newly minted entrants to Middle India bought up gold, either out of vanity or as an investment, was still much greater. Transformations within the country were not so dramatic as to persuade them of the value of diversifying investment portfolios. Lack of urban confidence in new asset categories was matched by rustic simplicity on the part of the rural population. The average Indian farmer may still struggle to open a bank account, due to the jumble of officialese that he would encounter, but he could always buy a piece of jewellery that would appreciate in value and which could be secreted at his home, away from tax authorities.[18] Moreover, from a wealth-management perspective, investing in gold made sense too. Between 2001 and 2013, gold purchases provided a 17% return, second only to the real-estate sector, access to which was anyway out of reach for many poorer Indians. In contrast, stocks provided an 11% return on investment.[19] Both rural and urban-dwellers therefore had good reason to buy gold, from a narrow and self-interested point of view. But there was also another factor at play.

## Laundering black money for the business elite

In the mid-1950s, the informal sector was equivalent to, at most, 3% of the formal Indian economy, with the latter having a low baseline. Four decades later, that proportion had climbed to 40% and the economy was expanding.[20] By the mid-2010s, the informal economy in India was thought to be the world's largest, at 50% of the formal economy.[21] This growth had been due to the miniscule capacity of the Indian state to regulate the nature and volume of business transactions conducted within its borders. During the 1990s, as part of austerity measures introduced to curb public spending, the government had allowed its own regulatory capacity to diminish even as the private sector ballooned. According to one estimate, by 2006, public spending in India per capita was a mere 20% of the amount the US government had spent more than a century earlier in 1902.[22] For all the talk about a surging Indian economy, the state's ability to enforce its own rules over private business was abysmally weak. This means that the decision to abolish gold controls in the 1990s might not have been the progressive measure it was made out to be at the time, but rather a tame surrender by the forces of law and order to buccaneer capitalism.

The smuggling of gold had all but stopped after the economic liberalization of 1991 (though it swiftly resumed when customs duty was raised again in 2012/13). For much of the period 1992–2012, a different form of economic crime replaced smuggling, albeit one that made use of the same logistical infrastructure; this was money laundering by proxy. Impoverished labourers from India working in the Middle East were offered free flights home if they agreed to courier up to five kilograms of gold – the maximum weight allowed per airline passenger – on behalf of unnamed individuals. The courier would arrive at the destination airport, falsely declare the gold as their own and pay the (at the time) nominal customs duty. Money for making this payment would have also been provided to them at the time they were handed the gold at the city of departure. Upon exiting the destination airport, they would immediately be met by a representative of the actual buyer, who would take possession of the gold without being seen by customs officials.[23] In this way, some wealthy Indian businessmen could avoid leaving a paper trail of their transactions that might later attract the attention of tax authorities to any outsized personal assets or commercial deals that they were involved with. At the same time, they were able to stockpile a high-value commodity that could be swiftly monetized if need be.[24]

Such transactions were part of phenomenon known as *benami* (Hindi for 'no-name') deals. In a *benami* transaction, the person who on paper is the legal owner of mobile or immobile property – whether jewellery, shares or real estate – is just its caretaker. The real owner underwrites the cost of purchase for a front person


**Gold is today no longer negatively associated with crooked businessmen, but rather positively with the consumerist aspirations of middle-class India.** © *Indranil Mukherjee/AFP via Getty Images*

while remaining unknown to tax officials. The front person receives a payoff for pretending to own the property and keeping the tax officer away from the transaction's sponsor. If the property is later sold, proceeds accrue to the financier, not the nominal title-holder.[25]

On 8 November 2016, in a surprise announcement, the Indian government declared the immediate demonetization of large-denomination currency notes. At a stroke, 86% of cash circulating in the economy at the time was rendered unusable. The government was attempting to improve financial surveillance and reduce tax evasion. A week before demonetization was announced, a new law had come into effect, raising the penalties for ownership and financing of *benami* property.[26] One newspaper op-ed later observed that at the time demonetization occurred, '[t]here were reports of rich people depositing their ill-gotten wealth in the bank accounts of sundry minions including drivers, peons and other underlings including pliable, beholden and frightened staff … [Such individuals would henceforth] have a hard time explaining their sudden wealth and shielding their employers.'[27]

Demonetization inconvenienced both tax evaders and ordinary members of the public. The latter were obliged to queue for several hours to exchange old, invalid currency notes for new ones. The former had to resort to the underground economy to launder long-cached slush funds before these lost all value. For those with enough wealth, undeclared black money could be converted into legitimate 'white' money through a gold-buying spree. Sellers would charge double the value of the gold, receive payment in old (i.e. nominally unusable) currency notes, and at their own leisure arrange to have these exchanged for newer notes.[28] Buyers meanwhile walked away with gold that could be sold again in return for fresh currency notes. In the southern city of Hyderabad, just during the three weeks immediately after demonetization, 27 billion rupees' worth of gold is thought to have been traded in this way, with the buyers remaining untraceable.[29]

Demonetization also led to a new surge in gold smuggling, over and above that which had come about as a result of increasing import taxes. In part, this surge was the consequence of accumulated demand: during the several weeks that it took the

Fiscal and financial government interventions have stimulated the gold-smuggling market in India. *© Indranil Mukherjee/AFP via Getty Images*

Indian government to print new currency notes, gold deliveries to India stopped, even on consignments that been contracted earlier. Yet, even if we take into account the backlog of deliveries, the high volume of gold seized at airports in the months after demonetization indicated that illicit financial flows into and out of the country were partly being shifted from investments in shell companies to gold holdings.[30] Previously, when corporate interests sought to launder money, they might have taken advantage of the weak regulatory environment in India to move funds through registered businesses whose sole purpose was to obfuscate the true origin, destination and purpose of financial flows. As a result of increased financial surveillance by the Indian government, after 2016, the emphasis partly changed to buying gold off the books and transferring it surreptitiously to make payments. One of the objectives of demonetization had been to expose shell companies by forcing their owners to hastily deposit stashed money into the legitimate banking system. In giving no notice of its intentions, the government hoped to panic holders of untaxed black money into bypassing financial consultants who can normally launder cash if given enough time. This seems to have succeeded to an extent: during the three years that followed, close to 700 000 shell companies across India were identified and shut down by law-enforcement agencies.[31]

## The rationale for raising customs duty and demonetization

At root, both the increases in import taxes and the effort to identify the holders of black money have a common purpose: to raise government revenue from taxation. Only 10% of India's working population hold formal jobs and have the ability to pay income tax, while the remaining 90% (equivalent to 450 million people) work in the informal sector on a subsistence basis and pay no tax at all.[32] For those who have a steady income, their relative prosperity is bittersweet. The Indian state imposes on them 'one of the highest tax burdens in the world paid by a narrow section of people'.[33] Out of the total population of 1.37 billion, only 24 out of every 1 000 citizens pay taxes. This is in contrast to developed economies, where the proportion is between 400 and 600 people per 1 000. A mere 4% of the population file any tax returns at all, and an astounding 0.1% of Indians contribute roughly 60% of all income-tax collections in the country.[34] All of this means that for the country to realize its ambitions of becoming a major international power, it first has to strengthen its domestic law-enforcement capacity and widen the tax base, while also facing popular resistance.

## A spendthrift political elite

The increase in customs duty on gold from 2012 onwards may have had little to do with whether the import of gold for private use was an acceptable practice. After all, successive Indian governments were willing to live with surging gold imports and low customs duty between 1992 and 2012. Rather, the 2012 tax raise was connected to an attempt by the party in power at the federal level, the centre-left Indian National Congress (INC), to bribe voters in the lead-up to the 2014 general election.

A goldsmith works at a workshop in Kolkata, India. Under India's Gold Control Act, individual possession of gold was strictly limited. This changed when the economy was liberalized in the early 90s.
*© Debajyoti Chakraborty/ NurPhoto via Getty Images*


**On 8 November 2016, the Indian government demonetized large-denomination currency notes. People lined up to withdraw their cash. Demonetization led to a surge in gold smuggling.** © *Mohd Zakir/ Hindustan Times via Getty Images*

The INC had long credited itself for opening India's economy up to foreign investment in 1991, and for the supposedly transformative economic reforms that were then implemented. In fact, some of the groundwork for reform had been prepared by a previous, non-INC government, and the party appropriated this to an extent when it won the 1991 general election.[35] Having inherited a blueprint for reforms, party leaders such as Manmohan Singh, who was finance minister in 1991 and served as prime minister from 2004 to 2014, trademarked the liberalization process as entirely their own creation. This allowed them to bask in the glory of half-real, half-imaginary achievements when the INC returned to power in 2004. For much of Singh's premiership, the party focused not on capital investment but wealth redistribution through the handing out of significant food and fuel subsidies to the poorest sections of Indian society, hoping to corner additional votes. Such a political strategy worked well when the economy was riding on favourable tailwinds and a flood of foreign investment. However, it proved disastrous when the global economic situation changed in 2008 and foreign capital stopped flowing into India. Rather than recognize that the 1991 reforms had run their course and needed to be backstopped by further reforms, as well as fresh investment domestically, the INC-led government doubled down on its welfare agenda, passing a National Food Security Act in 2013.[36]

Inflationary pressure caused by populist subsidies was just one of the problems that the Indian economy faced in 2013. Another was a growing current-account deficit


of US$88.2 billion, equivalent to 4.8% of GDP in the 2012/13 fiscal year. The deficit was caused, on the one hand, by fuel imports, which the government could do little about since India has long been heavily dependent on imported energy supplies. The next biggest item on the import list was gold, a luxury good that the government could control by hiking customs duty. Combined with inflation, which had prompted households to buy more gold in order to accumulate savings, the current-account deficit plunged the value of the Indian rupee to historic lows. The currency was Asia's worst-performing for much of 2013, a fact which caused great distress to India's working-class families who had been hoping to buy foreign-manufactured products or send family members overseas for work, study or recreation.

By raising import taxes on gold from 1% to 10% within 20 months, the INC-led government was able to bring down the current-account deficit to under US$60 billion. However, the reappearance of a steep customs duty on gold – a product that was increasingly seen as more necessity than luxury by a population which had developed expensive tastes – revitalized smuggling. The old infrastructure of gold smuggling had not disappeared after liberalization in 1993; its legitimate components had merely expanded to deal with increased demand, while the illegal components diversified into other types of contraband. Now both came together once again to service the demands of Middle India.


# METHODS AND ROUTES

There are two main hubs for gold-smuggling to India; they can be categorized as 'western' and 'eastern'. The western hub consists of Persian Gulf countries, with the UAE and especially Dubai at its core. Gold is brought here from Africa legally (at least as far as UAE law is concerned) and then refined and legally sold to Indians either visiting or working in the region. Some of these Indians then attempt to send the gold to their home country without paying taxes upon its arrival. It is this non-payment of taxes that constitutes the 'smuggling'; otherwise, as already clarified in the preceding section of this paper, the criminal charge would be not for smuggling but for serving as a conduit for illicit financial flows. And this too might only apply in cases where the carrier of the gold was not the one who actually paid for it.

The eastern hub consists of Thailand, Myanmar and Nepal, all of which are believed to receive gold from China which is then re-exported to India. There is little information about how this Chinese gold is obtained, and who and where the main syndicates are. On the Indian side, gold from the western corridor (the Gulf countries) is often – but not always – brought in by people of Malayali origin, who make up the dominant ethnic group in the southern province of Kerala. There is less clarity about who controls smuggling activity along the eastern corridor. An initial overview suggests that a common thread might run through expatriate Tamil communities scattered across South East Asia. The Tamils are the dominant ethnic group in the province of Tamil Nadu, which lies immediately adjacent to Kerala and dominates the southern tip of peninsular India. It has also traditionally been India's window onto the eastern half of the wider Indian Ocean region.

◀ **Gold smuggling to India began as a maritime business, and often involved the use of dhows.** © *Soltan Frédéric/Sygma via Getty Images*

The residence of 1970s gold smuggler and underworld don, Mastan Haidar Mirza.
*© Vikas Khot/Hindustan Times via Getty Images*

## A history of Gulf–Kerala smuggling

During the 1960s and 70s a gold-smuggling economy emerged in the UAE, targeted at India. A *New York Times* report from 1971 speaks of between 21 and 22 tons of European (mainly Swiss) gold being re-exported from the UAE to India by dhow.[37] The dhows circumvented Indian customs checks by shipping gold close to Indian waters, whereupon local fishermen would collect the consignments and take them ashore. Roughly one in eight consignments was intercepted by Indian authorities, suggesting that the total weight of gold arriving was in the region of 200 tonnes annually.[38]

Gold smuggling to India began as a maritime business and was focused on the upper part of the country's western seaboard, which is the coastline closest to the Persian Gulf. The financiers were expatriate Indians working in the legitimate gold trade. They would recruit Arab proxies to transport gold to drop-off points near the Indian coast, from where local 'landing agents' took over responsibility. These agents not only controlled fishing fleets but also had a strong presence in Mumbai's dockyards and were able to bribe customs officials. They could thus engage in poly-criminality, smuggling not just gold but also consumer goods into what was then still a closed, socialist economy.[39] Perhaps the most famous of these landing agents was a domestic migrant from Tamil Nadu, called Mastan Haidar Mirza. Known as Haji Mastan, he provided the real-life example of the cinematic mafia don referred to at the beginning of this paper, often dressing in white. Mastan later mentored a young Indian Muslim don, Dawood Ibrahim, who went on to become notorious for smuggling gold and heroin, as well as land-grabbing, extortion and, most importantly, international terrorism.[40]

Things began to change in the mid-1970s when the oil boom led to large numbers of Indians migrating to the Gulf as cheap labourers. Kerala was crucial in this regard. Why this province, out of all the 29 Indian provinces? Kerala was where Islam first took root in the Indian subcontinent, having entered the South Asian milieu peacefully through Arab traders in the seventh century. Although the province is predominantly Hindu, it has a history of voting for communist parties and has the highest literacy rate in India at 94%. This allowed Kerala to export roughly 10% of a skilled but inexpensive (because of oversupply) working population to the Gulf. Some 40% of this expatriate workforce was Muslim.[41]

Mass emigration began in 1965, eight years before the 1973 oil boom. At the time, it consisted of young men sailing by dhow to petro-economies in the Middle East; they were fleeing an overcrowded job market where industrialization was not in sight.[42] India itself offered little or no hope for a rapid ascent out of poverty, since the country faced difficult economic times during the 1960s and 70s. Many who emigrated to the Gulf thus had a dual-faceted identity: culturally they remained Indian, because naturalization in Gulf countries was virtually impossible; but politically, they were disenchanted with the retrogressive and hide-bound bureaucracy of the Indian state, which had forced them to move overseas in search of work.[43] This may have led them to have scant regard for Indian laws, especially those concerning import regulations.

The strength of Kerala's obsession with gold might be judged from a 2011/12 survey which found that rural parts of the province spent six times more per capita on gold than the province with the next highest rate of purchasing gold, Goa. The nationwide survey also found that in rural India, where poverty was acute, the richest 5% of the population spent on average 6.2 times more money on buying gold jewellery than the next 5% on the socio-economic ladder. Even in cities, the richest 5% of the population spent 3.9 times more on gold than the next 5%.[44] These numbers suggest that hoarding of gold perpetuates income inequalities in India, because it allows the wealthy to corner an unproductive asset that does little to stimulate economic activity, but instead adds to their personal savings.

Kerala is a province with a high quality of life by Indian standards, owing to expat remittances and tourism revenue. Its economy is, however, still inherently fragile, having perhaps been less market-friendly than those in other parts of India due to its strongly communist orientation. Thus, rather than local entrepreneurship, it has been diaspora entrepreneurship which has helped make Kerala one of the most prosperous parts of India. Smuggling is a component of such entrepreneurship. The gold smuggler is seen in his home community as a Jack Sparrow-type lovable rogue, a man who survives by his wits in an unfair world, and who may be a criminal in the eyes of a distant government bureaucracy but is an object of sneaking admiration locally. Opportunities for foreign travel have anyway been limited in India because of stringent visa requirements in wealthier countries. Anyone who makes money abroad is thus viewed as an achiever, regardless of how that money is earned.

By 1983, half of all Indians working in the Gulf were from Kerala, which is remarkable considering its small geographic and demographic size when compared to India's other provinces. Expatriate remittances made up roughly 25% of the province's economy in the 1980s.[45] Districts in the north, close to the neighbouring provinces of Karnataka and Tamil Nadu, became hosts to mafia-type networks that traded in illicit gold. Gradually, parts of Kerala mutated into strongholds of poly-criminal gangs that controlled real estate, the narcotics trade, money laundering and gold smuggling. These entities were similar to traditional mafias since they focused on developing independent sources of revenue and purchasing influence within elements of the police. In the process, they reduced their dependence on local politicians, who had earlier shielded them from law-enforcement agencies.[46]

## Northern Kerala as a hotspot of organized crime

Proximity to other law-enforcement jurisdictions was an advantage, since under India's federal constitution the maintenance of law and order is a provincial prerogative. The Kerala police could not operate in other provinces without the consent of local authorities. Mafias made use of these seams, sometimes bringing gold in through small airports in Karnataka and Tamil Nadu and then moving it to Kerala, where it was sold on the black market. The small town of Koduvally, near Kozhikode city, became infamous as a centre of illicit gold trading. In 2017, a 400-metre stretch of National Highway 766, which runs through the town and onwards to Karnataka, was home to 89 jewellery shops. Between them, they provided for the livelihood of 1 400 families in a town with a population of just under 54 000. Intelligence officials estimated that at least a thousand residents were involved in laundering money on behalf of gold mafias, often through investment in real estate.[47]

Fieldwork conducted for this report has found that mafia-like networks in northern Kerala, which engage in gold smuggling, seem to be predominantly Muslim. At least, this is the impression that can be obtained from interviews with local journalists as well as the analysis of press reports. The three districts where these networks are strongest are Kasaragode, Kozhikode and Malappuram. On occasion, smuggling 'facilitators' have been found to socialize with municipal and provincial-level politicians. (A facilitator is an intermediary between the financier of a gold-smuggling operation, who might be a respectable businessman in India or abroad, and actual couriers who physically transport gold, and who might be low-wage workers or even tourists. One Dubai-based facilitator arrested in 2019 was controlling a network of 70 couriers.)[48] It seems that by openly cavorting with local political figures, facilitators aim to signal to law-enforcement agencies that any arrests would provoke community-wide protests. In return for this tacit patronage, gold smugglers are believed to sponsor politicians in places such as Koduvally.[49]

One of the most interesting examples of social ties between the 'respectable' political class and the smuggling underworld might have taken place in 2020, amid the COVID-19 crisis. Here, a suspected smuggling facilitator returned to Kasaragode district from Dubai, where he owned a textile business.[50] He was initially tested for the novel coronavirus six days after entering India, and after a further two days, was found to be positive for the COVID-19 virus and hospitalized. When health authorities attempted to trace his local contacts, the man was reluctant to cooperate. A source in the local gold-smuggling circuit told a GI-TOC field consultant that the man in question would not have been able to share details about whom he had met during the intervening eight days, because they were involved in his smuggling network.[51] Revealing their names would therefore risk exposing the network to law enforcement. Yet his silence was largely ineffectual, as if anyone else in the same district showed symptoms of COVID-19 in the days following, they too could be investigated for possible links to the suspected facilitator as part of a general contact-tracing effort. Two sitting members of the provincial legislature of Kerala, who had met with the suspect, admitted having come into contact with him and went into self-quarantine. Photographs show the suspected facilitator meeting these legislators, and it seems from reconstructing the timeline of his movements after landing in India that he was quite a prominent figure on the community's social scene. One estimate holds that he potentially exposed 3 000 people to the risk of infection.[52]


New Delhi Airport. Smuggling through airports usually takes place with the complicity of at least some ground personnel. *© Photo by Nicolas Economou/NurPhoto via Getty Images*

## Courier motives

The post-1973 oil boom led to the expansion of air traffic between the Gulf and India, which in turn created new opportunities for gold smuggling. At around this time, a partial shift appears to have taken place in the identity of the key players. Previously, Indian nationals had bracketed the Gulf-based illicit gold trade, either financing it from the departure point or serving as maritime 'landing agents' for more powerful Arab partners at the arrival point (or both). As air-borne smuggling commenced, Indian businessmen in the Gulf started to take control of the new routes directly. They tapped into latent discontent among the large number of migrant workers from their home country. Immigration laws in many Gulf states had left low-skilled foreign labourers on the margins of society, living in cramped accommodation, receiving low wages and dependent on their employer's sponsorship to remain in-country.[53] The indignity of their situation jarred with the expectations of a better life that had drawn them abroad in the first place. Smuggling was more than just a way of making some extra money, it was also an assertion of personal defiance in the face of overbearing authority.

Gold-courier fees were generous in the 1980s, owing to the higher value of the Indian rupee then. Carrying two kilograms of gold could earn a courier anywhere between 40 000 and 80 000 rupees.[54] During subsequent decades, the casualization of smuggling (as a result of simplified visa procedures for the UAE and Thailand, two hubs of gold smuggling to India) and the availability of smartphones, reduced both the size of consignments and the size of payments. Other things have changed as well: couriers are now trusted less and are sometimes only asked to handover a piece of their luggage to the smugglers, who hide gold within it and return it to the passenger without revealing exactly where the gold is hidden.[55] There have been interceptions at airports where baggage handgrips have been found to be made of gold, moulded to fit the size and functions of the original factory-manufactured handle.[56] Sometimes, the courier is not openly told about the modification.

Couriers travelling by air receive relatively small 'commissions' of between 10 000 and 40 000 rupees per kilogram, plus a plane ticket, free accommodation and a couple of days' pocket money to spend in Dubai (or

Bangkok, if they are flying in from the eastern hub). The most frequently cited 'commission' in media reports, supported by interviews conducted for this paper in Kerala, is 25 000 Indian rupees;[57] this rate applies to the UAE–Kerala route. To ensure that air couriers get bail if intercepted, their recruiters almost never hand them consignments worth more than 10 million rupees. This ensures the couriers' silence – upon being bailed they merely vanish from the place of arrest and do not show up for their court hearings.[58] Given the size of India and the incapacity of law-enforcement agencies to pursue every bail-jumper, even a courier who has already been caught smuggling gold and is thus known to the authorities can go underground for a while. S/he can thereafter apply for a fresh passport and continue smuggling gold as though nothing happened.

Couriers are often recruited at Dubai's Deira gold souk, where many Indian tourists shop.[59] Other contact points are exploited on an opportunistic basis. One Indian national based in the UAE described to the GI-TOC how she was approached by a trainer at her local fitness centre. The trainer asked if she was willing to be a gold courier. Having agreed, she was contacted via telephone by another man who introduced her to two women from Kerala. These women told her that she would have to hide liquid gold (packed into condoms) in her body cavities. For this, she was offered 25 000 Indian rupees plus a return ticket to India. She claimed that she avoided any further contact with the smugglers and stopped attending the fitness centre where her recruitment had been attempted.[60]

Of course, it is not only Keralites who are couriers. The town of Batala, which lies in the far north of India in Punjab province, is the endpoint of gold consignments smuggled by students who originate from Punjab and nearby provinces.[61] Batala

**Couriers are often recruited at Dubai's Deira gold souk, where many Indian tourists shop.** © *Avishek Das/SOPA Images/LightRocket via Getty Images*

has a thriving gold market and access to the Gulf, South East Asia and Europe through international airports in the cities of Amritsar and Chandigarh, both of which have reported gold seizures. Further south, in the province of Maharashtra, Zaveri Bazaar is the hub for gold purchases in India's commercial capital, Mumbai. Traders at the market have been under investigation by Indian authorities on suspicion that they handle illegally imported gold.[62]

All of this goes to show that the smuggling business in India is not limited to a particular region or ethnicity. Even so, Kerala accounts for a large number of gold purchases in India (sources interviewed for this paper put the province's demand at anywhere between 10% and 80% of the national total, with two of the interviewees differing emphatically about the size of Kerala's – and also India's – gold market.)[63]

## Transcontinental supply chains

From end to end, the western gold route that begins in the UAE and terminates in Kerala, Punjab and Maharashtra is dominated by Indian nationals. An entire infrastructure has come up in Dubai, consisting mostly of Keralites working in the gold industry, who provide technical skills for disguising gold.[64] These include chemically treating gold so that it appears innocuous to an untrained eye, whether as a decorative powder (*mehndi*) commonly worn by Indian women, or anything else that may be worn or carried on one's person. According to one source interviewed by the GI-TOC, when the gold reaches its intended recipient, it is extracted from the substance that it has been mixed with. As in Dubai, there are technical experts who handle the extraction process in India, paid the surprisingly low rate of 3 000 rupees per kilogram.[65] It also appears that Indian involvement in procuring gold extends upstream from Dubai to central Africa, where much of the emirate's gold supply originates.

Officials in New Delhi and Mumbai confirm that Indian-origin traders in the Tanzanian city of Mwanza are buying gold and sending it to the UAE.[66] Mwanza is located on the south shore of Lake Victoria and is conveniently located for smuggling to Uganda, from where gold is legally exported to the UAE. Owing to a liberal import regime, the UAE has been accused of cashing in on illegal gold mining in Africa.[67] The country is favoured by smugglers because it has large offshore refineries from where smuggled gold can be mixed with legitimate supplies and then sold to retail outlets.[68]

Indian healthcare workers from Kerala have been travelling to Uganda since at least the last decade, looking for jobs.[69] There is no evidence to suggest that these individuals are involved in gold smuggling. However, anecdotal claims suggest that all leading gold traders in the Ugandan capital Kampala are 'Indian'. It is unclear whether these are Indian citizens or rather Indian-origin Ugandan citizens; their sub-ethnic group is also unspecified.[70]

What is known is that there is a strong historical connection between Uganda and India. According to some historians, Gujaratis have been living in East Africa since the 1500s. As a province of India facing the Arabian Sea, Gujarat has long been a portal to the western half of the Indian Ocean, much as Tamil Nadu is to the eastern half. Around 1900, there was an influx of Gujaratis to Uganda and Kenya as railway networks were developed and white-collar job opportunities emerged for British colonial subjects.[71] A separate stream of emigrants from the landlocked Punjab region arrived at approximately the same time. The hardy Punjabis did the blue-collar work of actually building the railways. Although the vast majority of these labourers returned to India upon the completion of their contracts, the Gujaratis stayed behind and slowly began to dominate local commerce.[72]

In 1972, Idi Amin, then president of Uganda, expelled the 80 000-strong Asian community from the country in a nationalist backlash against colonial legacies,.[73] The bulk of these Asians were of Indian, specifically Gujarati, origin.[74] Forced to abandon successful businesses and turned into refugees virtually overnight, they received asylum in the UK and other Western countries. Although they were invited back in the 1980s to help revitalize the Ugandan economy, many have remained sceptical that they can ever be truly welcome in the country that once threw them out.[75]

Perhaps it would be unsurprising if some members of the Gujarati diaspora who returned to Uganda engaged in trading practices on an entirely pragmatic basis, without concern for moralistic 'norms'. Or that newly arrived economic migrants from the Indian subcontinent might, as in Dubai, be aware that they are only tolerated by the host country and not welcomed. Such socio-political perceptions could lead them to be less concerned about the finer points of import–export regulations if there are semi-legitimate ways to get around these. One of the most prominent gold traders in Uganda has the name Patel – a common Gujarati surname – suggesting that Indian-origin entrepreneurs' control over gold-supply chains extends much further upstream than the UAE.[76]

## The hawala system as a payment method

Experts interviewed for this paper, as well as reports from the Indian news media, all point to the informal money-transfer system known as 'hawala' as being the lifeblood of gold smuggling.[77] The system works on trust, with payments made between West Asia and South Asia (and perhaps even Africa) on the understanding that money paid in at one end will be paid out at the other end, minus the hawala operator's commission. Gold fits into this financial ecosystem because it is both high-value and durable. The system works like this: If a businessman from India wants to make a sizeable purchase or investment abroad, it can be difficult to transfer the money legally because of tight currency restrictions on the outflow of foreign exchange. He can, however, find a lender who will loan him the money through a local front company in the foreign country where the purchase/investment is made. To repay the loan, the businessman engages in gold smuggling either by directly recruiting couriers or, more commonly, by hiring a facilitator to do the same. The gold, once smuggled to India, is handed over to the lender. The same is true in reverse: gold is smuggled out of India to pay back debts that have been incurred within the country and have been sponsored by overseas financiers.[78]

Not all gold that is brought into India, whether legally or illegally, stays in the country. The South Asian nation has one of the world's largest jewellery industries and exports gold in this form, either back to the UAE or to markets in Western Europe and North America. Shipments sent to the UAE could be used as a cover for reverse-smuggling, with sales invoices manipulated to conceal the real value of gold dispatched. Other than rare mentions in the media and from gold-industry insiders, there is no reportage or commentary on the matter. What seems clear is that schemes for illegally transferring money out of India are closely linked to the gold business, a point that some interviewees who work in the legitimate gold-retail sector omitted to mention. (They focused on the issue of high import taxes and suggested that smuggling would reduce if taxes were lowered. Although this is not necessarily incorrect, it obscures the fact that gold is closely tied to stashes of undeclared black money, and thus, even if smuggling stopped as a result of import taxes being completely abolished, money laundering through gold purchases from abroad would continue.)

One scheme from the 1980s involved purchasing high-priced academic books published overseas. The India-based buyers would apply for the requisite foreign exchange to be released to them by local banks. What the purchasers would not tell bank managers was that these books were actually being bought at massive discounts, with the difference stashed in overseas accounts to service the hawala system.[79] That system in turn financed gold purchases. According to one news report from 2013, at the time Dubai's hawala infrastructure consisted of 500 operators of whom 25 dealt with substantially large sums of money. A mid-range operator handled on average 40 million rupees' worth of currency transactions daily. The operator might operate his business through a front organization, such as a hotel or travel agency, so that he could show a legitimate source of income while dispatching hawala funds on the side. One estimate, also from 2013, suggests that a total of 2 billion rupees was remitted to India daily from the Gulf countries, of which 70% was linked to gold smuggling.[80]

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## New routes from the east

After the UAE introduced a 5% value-added tax on gold purchases in January 2018, smuggling syndicates based there began diversifying their routes to India.[81] The artificial price rise was rather brief, because the tax was partly rolled back within months, with wholesalers no longer having to include it in their pricing for retailers. Yet, given how price-sensitive the gold market is, sales still dropped by between 30% and 50% in the months immediately after the tax raise was introduced.[82]

Since flights from the UAE have long been subjected to close scrutiny by Indian customs, smugglers have begun to shift to alternate routes. One favoured alternative departure point is Bangkok. Gold originating from China is smuggled into India on flights from Thailand or overland via Myanmar. The Indian border with Myanmar crosses along the external boundaries of four impoverished provinces in India's remote north-eastern region (simply referred to as the 'north-east'). The provinces of Manipur and Mizoram, in particular, have emerged as key gold-smuggling hubs. Sources interviewed for this paper revealed that land routes such as Tibet–Nepal–India and Thailand–Myanmar–India are increasingly used by gold smugglers, owing to heavy volumes of cross-border traffic.[83]

Border posts at Moreh (in Manipur) and Zokhawthar (in Mizoram) present an interesting study in contrasts. Manipur is one of the most politically volatile provinces in the north-east. The road from Moreh to Manipur's provincial capital, Imphal, is pockmarked with unofficial 'checkpoints' manned by various insurgent groups which collect 'taxes' from cargo vehicles. Moreh was meant to be part of the Indian 'Look East Policy', connecting the subcontinent with economies of the Association of South East Asian Nations. Although announced in 1992, the policy has progressed slowly on the ground. Hence, the economy of India's north-east remains weak and dependent on illicit trade. Until a few years ago, New Delhi tended not be overly concerned about this, because local corruption and even armed extortion did not threaten the territorial integrity of the country. On the contrary, they may have helped tie border provinces closer to the federal core. This is because ostensibly separatist groups still need an economic hinterland from which to launder illicit funds, and the gargantuan markets of India provide them ample investment prospects. Since the north-east's various separatist factions are too weak in operational terms to achieve military results and change ground realities, their involvement in criminality is tolerated. However, in the last five years, there has been a renewed push to strengthen Indo-Myanmar trade. As a result, the north-east is receiving greater attention from policymakers.

Like Manipur, Mizoram too was affected by violent militancy for decades. But since a peace agreement in 1986, the province has been the most tranquil in the north-east. It hosts a population of roughly 100 000 Myanmar immigrants, of which 30 000 are settled in the provincial capital, Aizawl.[84] Some are believed to play a role in the trafficking of women from the north-east, moving them through Myanmar and on to South East Asia, even as gold, narcotics and weapons flow in the opposite direction, directed at Indian territory. The border village of Zokhawthar is favoured by smugglers because it is reasonably close to Aizawl and because, like in Moreh, local law-enforcement capacity is reportedly weak. As Myanmar is considered a friendly country, residents on both sides of the international border are permitted to enter each other's territory and travel up to 16 kilometres inland without visas. In practice, this allows smugglers to operate unimpeded, since both India and Myanmar lack the capacity to track individual border-crossers who might choose to abscond while in the respective jurisdictions. With Manipur remaining a restive province, since February 2015 some smuggling syndicates have switched to using Mizoram as an entry point into India.[85] It is possible that this is an effort to reduce the overhead costs incurred while paying protection money to insurgent groups in Manipur.[86]

## Myanmar as a conduit for East Asian gold

Gold entering India from Myanmar tends to be smuggled in the form of either bars or 'biscuits' (small slabs which are literally biscuit-sized). Since these are difficult to physically disguise, the smugglers' emphasis is instead on concealment. In this regard, the movement of illicit gold over land and sea borders differs from that conducted via airports. Gold smuggled by air tends to be disguised in a variety of imaginative ways, including as paste, pens, powder, belt buckles, cutlery and even staples. (One courier was intercepted carrying 755 grams of gold moulded as box staples – 109 of them were used to close three cardboard boxes carrying ordinary household appliances.)[87]

Criminal syndicates on both the eastern and western air routes (respectively, from China to India via South East Asia and from Africa to India via the Gulf), have the technical capacity to disguise gold. Smugglers use a combination of human couriers and professional delivery services. Of late, especially along the eastern route, e-commerce platforms have been used to generate seemingly innocuous cover purchases, which can serve as trojan horses for bringing in gold.[88]

The smuggling infrastructure along the India–Myanmar land border does not appear to be as technically sophisticated as that which services air routes (although some overland interceptions suggest that East Asian smugglers are also capable of melting gold and reshaping it to look like a normal metallic household item). Gold entering India via land crossings in the north-east tends to be smuggled in bulk, often concealed inside vehicle headrests or floor cavities.[89] The weight of gold brought in poses an additional risk to transporters, who, if apprehended, would be ineligible for bail should the market value of their cargo cross 10 million Indian rupees. Such an amount equates to about 2.75 kilograms of gold, which is not much considering that overland

An Indian security guard on patrol at a border point with Myanmar. Gold entering India via such land crossings tends to be concealed in vehicles. *© Robert Nickelsberg/The LIFE Images Collection via Getty Images/Getty Images*

A man walks on railway tracks in Guwahati, a transhipment hub. Gold is often transported by rail across India.
*© Sajjad Hussain/AFP via Getty Images*

smuggling syndicates use expensive cars to deter customs officers from carrying out random searches. Those who actually drive the vehicles may be lowly foot soldiers in a larger smuggling network, but they still carry a substantial cargo and run the risk of imprisonment if caught. For this reason, they seem to be paid better than air couriers, earning between 60 000 and 150 000 rupees per consignment.[90]

## Overland smuggling

Once gold enters India through either Manipur or Mizoram in the north-east, it is transported to the rest of the country via road or railway. Guwahati, the largest city in the north-east, is a transhipment hub. From here, gold travels to Kolkata and even further to Chennai in the far south. Railway police have intercepted couriers at stations along the way, notably at Vishakhapatnam in Andhra Pradesh province.[91] Smuggling syndicates prefer to move gold domestically via surface transport in order to avoid the risk of detection at airports, where security is tight as a result of terrorism concerns.[92] Owing to the lower possibility of interception, couriers plying the railway network receive paltry compensation at anywhere from 5 000 to 15 000 rupees. Like their counterparts who bring gold into the country by air, they usually do not know who the end-receiver of the gold is. Sometimes, in return for their carrying fee and a paid ticket they are willing to forgo any knowledge of the specific contraband they are carrying, and merely accept responsibility for a nondescript package with instructions to hand it to an anonymous contact when they reach their destination. They are provided with the mobile number of the contact and little else.[93] Thus, even when couriers are caught either bringing gold into India or transporting it within the country, law-enforcement agencies struggle to identify who exactly funds their activities. Interrogation yields the names of foreign-based recruiters easily enough when the gold has come from outside, but the names of local contacts typically remain unknown.[94]

Couriers are merely the lowest rung of a supply chain that progressively gets more integrated with the legitimate gold industry, or with other forms of business, the higher up you go. India in this regard seems a bit different from Bangladesh, where transnational organized-crime groups also play an important role in smuggling. Some 80% of the gold traded locally in Bangladesh is smuggled in via one of the country's three airports, usually from the Middle East.[95] Owing to its geography, Bangladesh has land borders with only India and Myanmar, and most of the smuggled gold is either sold in the domestic market or forwarded to India. The proceeds of these sales are used to fund other kinds of smuggling along the India–Bangladesh border, notably that of cattle and drugs, as well as human trafficking.

Especially in eastern and central India, various provincial police forces are up against decades of under-investment in security infrastructure. Certain towns near the Nepal border, such as Gorakhpur and Raxaul, are known to be smuggling hubs.[96] These places lie respectively in two of India's poorest and worst-governed provinces, Uttar Pradesh and Bihar, where the dividing line between local politicians and gangsters is thin. In the province of West Bengal, the gateway to India's north-east region and a major transit corridor for incoming gold, there are 400 law-enforcement personnel tracking the movements of over 2 000 carriers, of whom 1 500 are repeat offenders. It is estimated that on average, ten carriers work for a single gold trader, who ensures that the smuggled cargo is mixed with legitimate gold imports and released into the domestic market.[97] Bengal is also a recipient of gold smuggled through Bhutan. A 2019 report states that the Bhutanese town of Paro has developed a smuggling economy built around gold. For several years, the local farming community illegally transported timber northwards to Tibet. Once Bhutanese law enforcement began to intercept timber consignments, the same individuals switched to transporting gold southwards from Tibet to India.[98]

## The shared Tamil connection

Owing to a segmented logistical chain with intermediate nodes, gold smuggling via land routes is not dominated by any one ethnic group. Bengalis and Assamese (from the Guwahati connection) play an important role along parts of the chain, as do Mizos and Manipuris in other parts, in addition to foreign nationals from Nepal and Myanmar. One particular group of people does, however, stand out from the rest; these are the Tamils. During the colonial era, over a million Tamils relocated to Myanmar (then Burma) in search of economic opportunities, much like Gujaratis did to East Africa. Somewhat like the unfortunate Gujarati diaspora who were later expelled by Idi Amin in 1972, Myanmar Tamils were compelled to emigrate by the policy changes that followed the 1962 military coup.[99]

Many of those who left returned to India, to their ancestral roots in Tamil Nadu province. However, having been in many cases born and brought up in Myanmar, they found India to be a foreign land where they struggled to find jobs. A handful tried to emigrate back to Myanmar, travelling across India to the north-east, only to be stopped at the India–Myanmar border. Unable to cross, they settled in Moreh, the same Manipuri border town that has become known as a smuggling hotspot for various kinds of contraband, including drugs. For over three decades, Tamils were the largest ethnic group in the town, with their numbers reaching 15 000.[100] During the 1990s, this population dwindled precipitously as new employment opportunities opened up back in Tamil Nadu, in sync with the overall acceleration that was underway in respect to India's economic growth. Presently, the 3 000-strong Tamil community in Moreh dominates the border trade with Myanmar. A certain businessman of Tamil ancestry, referred to as the King of Moreh, is said to hold sway with multiple stakeholders in the legitimate and illegitimate economies. The latter includes the armed insurgent groups along the border that sporadically battle Indian security forces.[101]

The link with Myanmar extends all the way to Chennai, capital of Tamil Nadu province. A well-known smugglers' market in the city is Burma Bazaar, where allegedly, smuggled goods that have been intercepted and seized by local customs officials are sold alongside those that are not intercepted.[102] In 2016, Indian law-enforcement officials disrupted a network that smuggled gold from Myanmar via a land-border crossing (most likely Moreh) to Tamil Nadu. The criminal group running this network was based in Chennai.[103] With a major international airport, Chennai is also an entry point for gold arriving from Singapore and Malaysia, two countries where there is a strong Tamil diaspora. Media reports hint to the possibility that some members of the diaspora might be arranging for gold to be carried by airline passengers, sometimes with the use of quite minor bribes.[104] Upon arrival in Chennai, corrupt airport workers arrange for the gold's removal from the arrival terminal. Thereafter, the gold is sold to local jewellers.[105] As at Kerala's airports, there have been sophisticated attempts in Chennai to smuggle gold by altering its chemical composition. Customs officials in Chennai have seized gold that had been dissolved in an acidic mixture and hidden inside branded detergent cans. At Coimbatore, another city in Tamil Nadu with an international airport, a smuggler was discovered with 878 grams of gold that had been converted into a paste, applied on his legs and covered with bandages.[106]

## The Tamil Nadu–Kerala dyad

As the two southern-most provinces of peninsular India, Tamil Nadu and Kerala share a long border. This has reportedly made for a thriving interprovincial traffic in gold. From a survey of media reports, it appears that the flow is predominantly from Tamil Nadu to Kerala. The city of Thrissur, located in the centre of Kerala, is often used to cache gold prior to distribution to other parts of the province. Public transport on roads and railways is preferred, due to the lower risk of random security checks.[107]

The sharp increases in customs duty since 2013 has made gold smuggling lucrative even for those who had few pre-existing connections to organized crime.[108] Their main hurdle has been to find buyers for any consignments that are first clandestinely brought into India and then have to transported overland to domestic gold markets. If press briefings by government officials are any indication, it appears there is no shortage of such buyers in the gold shops of Delhi, Chennai, Mumbai and even Thrissur. One of the sources interviewed for this paper said that a prominent jewellery firm in Kerala has built itself into a multinational empire through gold smuggling.[109] It is therefore a bit incongruous that in 2014, a gold tycoon from the province should have felt outraged enough to call smuggling a 'cancer'.[110]

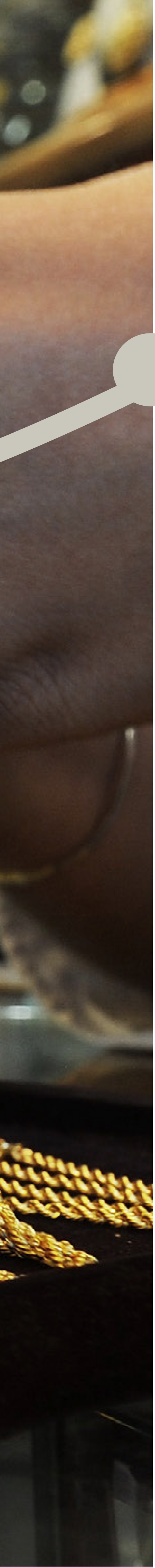
The seaport at Mundra. Legitimate export–import businesses have been found to be implicated in the smuggling of gold on container ships.
*© Sam Panthaky/AFP via Getty Images*

## Sea-borne smuggling

On a couple of occasions, legitimate export–import businesses dealing with either scrap metal or other metallic products have been found to be implicated in the smuggling of gold on container ships.[111] The seaport of Mundra in Gujarat province, which is closest to Dubai, has been mentioned in this regard;[112] another seaport used is Mumbai. Although containers arriving at these locations are subjected to routine scans, they are hardly ever physically checked. The scanning devices, meanwhile, cannot differentiate between types of metal, making it possible for large quantities of gold to be brought in.[113] Further south, the Tamil Nadu coastline along Ramanathapuram district, which is closest to Sri Lanka, has reportedly become a favoured landing area for gold smugglers operating from the latter country.[114] In March 2020, the Indian coastguard recovered 15 kilograms of gold, the largest such haul in recent years, which had been dumped on the sea bed off Mandapam, a port town in the district. The gold had been hurriedly abandoned by two fishermen who were smuggling it from Sri Lanka.[115]

There have also been reports of sea-borne deliveries made to Kerala, specifically to the coastline near Thiruvananthapuram. Although dhows from Dubai have largely ceased to operate (they still move gold to Pakistan, from where it is sent to India), the short distance between Sri Lanka and Kerala makes a maritime trade in gold still viable.[116] Concerns about price fluctuations while a consignment is still underway do not apply along this smuggling route, as they do on most other routes. This is because the brief duration of Sri Lanka-to-India voyages reassures smugglers who sail from Sri Lanka that whatever price they had previously agreed upon, would still apply when the gold is landed on the Indian coastline. For gold that is being sent directly from the Middle East or East Asia, air couriers are the preferred smuggling method because of price volatility.

# ILLICIT RESILIENCE



There are a number of reasons why gold smuggling to India persists in the face of government efforts to combat it. First and foremost is the limited surveillance capacity of the Indian state apparatus. As already indicated in this paper, the country's narrow tax base is both causative and symptomatic of a cash-strapped government machinery that cannot operate to its full potential without public cooperation. Such cooperation is rarely forthcoming because India's colonial history has bred a degree of tolerance and even tacit patronage for those who commit revenue crimes. Furthermore, smugglers are able to obtain assistance from corrupt officials. There is also the fact that legislative changes aimed at improving tax collection are easily undermined by non-compliance at the retail level. Finally, there is the continued imposition of high customs duty on gold imports, a consequence of the political imperative to raise tax revenue and sustain welfare programs for the most impoverished sections of society.

## Limited capacity for surveillance and inspection

Monitoring transnational organized crime in India, including gold smuggling, falls under the mandate of the Directorate of Revenue Intelligence (DRI). The agency is one of the few law-enforcement organizations empowered to conduct telephonic interception and gather intelligence overseas. Its personnel are reportedly quite professional, well trained and highly motivated. They have a strong informer network among the Indian diaspora in countries that act as smuggling hubs to the subcontinent. While conducting research for this paper, the author was struck by the number

◀ **It is estimated that India has 20 000 tonnes of privately held gold, about 75% of which consists of family jewellery.** *© Dibyangshu Sarkar/AFP via Getty Images* of press reports that indicated an interception based on precise intelligence obtained by the DRI. Even so, there are no reliable estimates of the percentage of smuggled gold actually intercepted by the agency and its sister service, the Central Board of Indirect Taxes and Customs. Wild guesses range from 1% to 15%, with most averaging around the 5%–10% bracket.[117] This is roughly comparable to estimates of the effectiveness of customs interception in Bangladesh and Nepal.[118]

Any statistics must be treated with caution because of the sheer variation in supposedly authoritative figures. One calculation is that the amount of gold illicitly brought into India during the mid-2010s stood at 100 kilograms per day, while other estimates suggested at least five times that number. Similarly, two leading experts interviewed for this paper estimated the weight of smuggled gold at around 400–500 tonnes annually, asserting that it made up 50% of total gold entering the country.[119] This is a rather high percentage when compared to that quoted in media reports, which is in the 20%–25% range.

India has a total of 25 airports with international flight connections, making tight surveillance physically impossible. At Delhi airport alone, a screening rate of one passenger every three minutes would, over 24 hours, still lead to only 480 passengers being checked, a mere 1% of the daily passenger inflow through the airport.[120] Owing to capacity constraints, the DRI and customs have to rely on informers and artificial intelligence, primarily the Advanced Passenger Information System.[121]

Profiling frequent travellers who leave the country for short periods of time has helped intercept gold coming not only from the Middle East and East Asia, but also from regions not commonly associated with smuggling, such as Western Europe. The degree to which different customs units in India have the necessary manpower and equipment to screen passengers does, however, vary. A relatively high turnover rate in some postings, where a customs officer may be rotated to a new post in under a year, limits the effectiveness of screening methods. Even as an officer starts to recognize unusual passenger behaviour in their assigned area, they may be abruptly transferred to a new assignment and have to undergo the administrative hassle of settling into a fresh role.[122]

Customs units seek the support of airline cabin crew in alerting them about unusual passenger behaviour during a flight, such as considerable time spent in the toilet. With low-cost airlines offering both domestic and international flight services, it became common during the 2010s for smugglers to compartmentalize their operations. One courier would board an aircraft when it was flying into India from a foreign airport. S/he would stash the gold they carried either under their own passenger seat or in one of the aircraft's toilets. Upon arrival in India, the courier would disembark, leaving the gold still on board the plane. Having obtained the aircraft's itinerary beforehand, the smuggling network would arrange for a second courier to board the same aircraft for its onward domestic flight and retrieve the hidden gold. Since the onward flight would be only within India, the second courier stood a good chance of not being checked by customs as s/he exited the destination airport.[123] Even so, the agency detected several such smuggling attempts at less-frequented airports in the country, indicating that it possessed a good informer network or received fairly good cooperation from aircrew.


Meanwhile, the DRI urged airlines to engage in the pre-employment vetting of new hires, to verify that they had not been previously caught out for gold smuggling. As early as 2015, there had been cases where an airline employee was found to be involved in smuggling, was sacked and then was able to get employed with a different airline, due to a lack of due diligence at the hiring stage.[124] Through soliciting cooperation from the private sector, as well as other arms of government, customs and the DRI have tried to make up for their limited physical capacity and information sources to intercept gold consignments.

Air travel plays a significant role in the smuggling of gold into India. © *Robert Nickelsberg/Getty Images*

## Public acceptance and political patronage of gold smuggling

Only 2% of passengers and 15% of cargo entering Indian territory are subjected to any kind of customs inspection, however cursory.[125] One reason for the low rate of engagement is that in India, strong cultural resistance exists to the notion that the government has any right to tax private wealth. Although such opposition is in many ways a universal human condition, it is underscored in the Indian context because under the British colonial regime, taxation had been a national wealth drain. Historical scars linger, ensuring that those who collect taxes today are reflexively associated with a policy establishment that, despite existing in a democracy, is not fully trusted with representing the interests of the people. Thus, even in a postcolonial context, revenue crimes are invested with a degree of social acceptance for defying an


**Police officials seized gold bars and Indian currency after three people were arrested for allegedly trying to smuggle gold from Nepal into India in February 2016.** *© Diptendu Dutta/AFP via Getty Images*

intrusive state. Reflecting this, in 2018 a legislator in Rajasthan province told attendees at a public event that if they wished to engage in any illegal activity, it ought to be gold smuggling. His logic was that while prices of gold and narcotics were comparable, it was both less risky and more prestigious to be arrested for smuggling gold rather than drugs.[126]

When local and provincial-level politicians are involved in smuggling gold, or even tacitly encouraging such activity, it becomes professionally and sometimes physically dangerous for law-enforcement personnel to investigate them. There is a certain amount of impunity granted, unofficially, to suspects who hail from well-connected families in Indian provinces, or from friendly neighbouring countries. A member of the Bhutanese royal family was found to be couriering gold through Kolkata airport, but when questioned, he invoked diplomatic immunity and had to be released.[127] Similarly, an influential Sri Lankan family is thought to have developed ties with gold traders in Chennai, supplying them with consignments purchased in Dubai and routed to India via Colombo, the Sri Lankan capital.[128] Two known arrival points in India are Kozhikode in Kerala and Madurai in Tamil Nadu. Although investigators are reportedly tracking such activities, due to political and diplomatic sensitivities there has been little mention in the press of any breakthroughs. In yet another case, a counsellor-level official of a foreign mission was intercepted at Delhi airport, arriving from Dubai. He denied officials permission to search his bags, but a search was carried out anyway and 37 kilograms of gold discovered, a weight far in excess of what would normally be couriered by smugglers. Owing to this official's position, he was granted immunity from arrest but expelled from India.[129]

## Corruption and insider involvement

Smuggling through airports usually takes place with the connivance of at least some ground personnel. Whether these are airline counter staff, lowly sweepers and sanitation workers, customs officials or even security personnel deployed to guard against terrorism and sabotage, there is often inside help extended to smugglers.[130] In one case from Kerala, an officer of superintendent rank was involved in facilitating smuggling; in another case from Chennai, five customs personnel, including an assistant commissioner, were detained for the same type of crime.[131]

A serving customs officer revealed that smuggling facilitators sometimes recruit inside helpers at airports by frequenting bars and nightclubs popular with airline crew and/or airport ground staff.[132] Over the course of drinks together, the facilitator aims to elicit information about the prospective helper's job and financial requirements. If the targeted person seems susceptible, a recruitment pitch is made, offering fast money in exchange for a small favour. The favour might consist of either couriering a package into the country (for internationally operating aircrew) or collecting it from a hiding spot within the airport and then transporting it out of the compound (for ground staff and maintenance personnel). Since a measure of goodwill would have been created over several meetings before the pitch is made, a targeted individual might feel hesitant to refuse outright.

Similar methods are used with customs officials themselves, who are initially approached outside of their workplace and offered money for sharing the duty rosters of customs units at international airports. While some personnel may decline a bribe, others may have fewer qualms. Through the latter, a smuggling facilitator can learn the names of individual officers who are tasked with passenger screening. Private arrangements can then be reached with some officers (whoever is susceptible), such that whenever a gold courier arrives, the suborned officer ensures the courier is not checked, or else is subjected to only a cursory screening. The facilitator might take the precaution of sending a photograph of the courier to the corrupted official via WhatsApp, to ensure there is no mistake.[133]

On occasion, the facilitator might play a double game, deliberately sacrificing a small consignment of gold and allowing the customs official to arrest a novice courier. Through this tactic, the facilitator would gain two-fold. First, he would ensure that the corrupted customs official does not come under suspicion for failure to make any interceptions. Second, he could attempt to convince the overseas-based businessman who financed the gold-smuggling attempt to write off one consignment as an unavoidable loss,[134] and meanwhile, discreetly arrange for the seized gold to be retrieved from customs authorities upon payment of a fine, keeping the gold for himself to sell to whomever he wishes. At least two sources interviewed for this paper confirmed independently that such sporadic double-crosses do take place in the gold-smuggling business. Furthermore, one of the sources pointed out that sometimes an informant tip-off about a smuggling attempt is actually an effort by one gold syndicate to undermine a rival network by 'burning' the latter's couriers.[135]

## Hidden wealth

Gold is a personal luxury purchased at a cost to society, in terms of economic growth, because it is an idle asset. While its attractiveness comes from the fact that it does not lose value in storage (in fact it gains value) it still contributes nothing to the economy.[136] It is the ultimate insurance policy – an asset that both individuals and governments retain for an extreme need that rarely if ever arises, but which locks away hard currency. India can ill-afford such an expense: in 2011, the country's demand for gold was 1 059 tonnes, compared to 770 tonnes in China and 214 in the US;[137] this, even as GDP per capita in India, China and the US stood at US$1 410, US$4 940 and US$48 620, respectively. For all the

*It is estimated that India has 20 000 tonnes of privately held gold.*

money that Indian households sink into gold in the pursuit of private benefit, there is a social opportunity cost in terms of taxable liquid transactions that are able to generate revenue and can, in turn, be used to improve public services.

It is estimated that India has 20 000 tonnes of privately held gold, an amount greater than the combined central bank reserves of the US, China and the Eurozone, and 35 times larger than the official gold reserves of the government of India.[138] About 75% of this gold consists of family jewellery, 23% is held as an investment and 2% is meant for industrial use.[139] Forcing the public to bring their private gold into circulation, through recycling old ornaments and monetizing existing caches, would in theory help audit black money that has been hidden through off-the-books jewellery purchases. But in reality, the informal economy in India is defying government attempts to regulate transactions. Following the introduction of the GST in 2017, some gold traders have avoided issuing sales receipts, attracting customers by not including GST in the price that is eventually negotiated.[140] Meanwhile, customers can purchase gold without leaving a paper trail. So, in effect, the same problems that existed prior to demonetization and the appearance of the GST, still prevail.

According to two different sources in the Kerala gold trade, once gold is smuggled into India it does not directly end up in high-end retail outlets. This is because sporadic raids by tax officials pose a reputational risk that many jewellery shops prefer to avoid. Instead, large retailers keep the smuggled gold, remoulded as ornaments, stored in large vaults on private residential properties. Sales of such gold occur 'off the books' so as to generate no documentation. As for smaller retailers, they rely on personal contacts with smugglers to deliver gold as needed, and sell this off quickly.[141]

Changes have taken place in the gold market as a result of government intervention. The divide between large and small jewellery retailers is widening, with large ones better able to absorb the added costs of meticulous record-keeping demanded by officialdom. Smaller shops, on the other hand, have been pushed deeper into the informal economy. A shift in consumer attitudes means that traditional demands for gold jewellery are giving way to an interest in new designs, which can primarily be supplied by large shops.[142] Furthermore, some customers are now asking for certificates of purity, which many small shops are unable to provide. By allowing market forces to shape the future of the gold industry in India, the government may find it easier to scale down demand and allow the lower-end traders to be phased out. However, there is also a possibility that smaller retailers who are losing ground to large ones, might seek to expand into new localities ill-served by established city-based jewellery stores. Thus, gold purchases could increase in the countryside.

## Populist spending continues

There remains a certain opaqueness as to why customs duty has continued to rise, even though India's current-account deficit was substantially reduced in 2013/14, following the initial tax increases. Dealers in gold jewellery and bullion have been calling for a drop in the duty, pointing out that it is hurting their business and encouraging smuggling. Yet, so far their pleas have been ignored. The reason for this could be that the government's underlying motives for taxing imports may not have changed.

In 2012/13, the INC, then the ruling party in India, raised customs duty in order to increase government revenue after a disastrous public-spending binge. The party had counted on a continuation of India's high economic growth rates to finance infrastructure, and focused instead on welfare programmes for the poor, who made up its voter base.[143] The wheels fell off from this particular wagon in 2008, when the global economic crisis demonstrated that India was heavily dependent on foreign investment for its improved living standards and GDP growth. Even so, the INC ploughed ahead with an eye to re-election in 2014 by expanding on its existing programmes, hoping that these would cushion the shock of the global crisis for the Indian electorate.

When the INC lost the 2014 election, it was not through lack of effort to win over voters. Rather, the party, while in government (2004–2014), had come to be heavily associated with crony capitalism. A number of its senior leaders were accused of directly profiting from billion-dollar scams. In this environment, the centre-right Bharatiya Janata Party (BJP) was able to romp to power. The BJP set about dismantling the patronage networks that the INC had built up during its decade in government. This effort necessitated a crackdown on political slush funds.

The BJP attempted to gain control over the informal sector and specifically tackle vast quantities of black money that were circulating in the Indian economy, outside the tax system. Not only would a targeted suppression of such funds weaken the INC while the latter was in opposition, it would also raise tax revenue and help correct the budgetary deficits that had grown during INC rule. Even though these deficits had fallen within tolerable limits by the time the BJP came to power, the party intended to continue the INC's policies of redistributing wealth through welfare programmes. It thus needed to expand the tax net, and accordingly, persisted with the import tax on gold.

## Future trends

It is not just individual households who buy gold – governments do too. Between 2015 and 2020, Russia, the world's bigger buyer of gold, spent in excess of US$40 billion bulking up its bullion stockpile, which at a worth of US$120 billion makes up 20% of the country's total foreign-exchange reserves.[144] Both Moscow and Beijing seem to anticipate an international financial system where the dollar will lose some of its value over time, and thus see sense in diversifying their reserves.[145] Such assessments, if they are indeed held by policymakers, may prove justified in light of the COVID-19 crisis and the global economic downturn that will almost inevitably follow. There has already been a rush of investments in gold, with prices rising due to the initial surge.

For India, the crisis is likely to lead to a spike in gold purchases for investment purposes. However, due to high unemployment – 120 million Indians lost their jobs in the course of just two weeks in spring 2020, potentially leaving a third of the country's households without a source of livelihood – spare cash for buying gold will be extremely scarce.[146] Gold will therefore be bought by only the very wealthy who can afford it, widening already steep income disparities. Small retail outlets tend to exist cheek-by-jowl in crowded marketplaces, such as Zaveri Bazaar in Mumbai or Chandni Chowk in Delhi. These locations do not permit any kind of effective social distancing, meaning that footfalls will reduce for the foreseeable future even as civic authorities enforce movement controls.[147] Since it will be difficult to purchase gold via the formal retail sector, informal purchases are likely to increase.

Meanwhile, the Indian government will have to introduce a fiscal stimulus to help the economy recover from the demand-side shock caused by the COVID-19 crisis. Such a move would create downward pressure on the Indian rupee and could spark a further increase in customs duty, potentially raising the profit margins for gold smuggling.[148] It is almost certain that the economic distress the pandemic will cause the Indian population will leave overall demand for gold high.

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