



SOVEREIGN GOLD RESERVES. GEOPOLITICS OR ECONOMIC CALCULATION?

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Abstract

Gold has had a special course; it has influenced history and has triggered enrichment fantasies. Beyond the value given by its scarcity and its physic-chemical properties, gold has many other uses. Yet we tend to imagine it in the form of large ingots. Thinking thus, we associate it with wealth and with the general idea of abundance. Thus, all countries, together with the desire to boost national economies, are trying to diversify the portfolio by creating economic sovereign gold reserves. But, the growing collapse of world economy and the attempt to set a new international order involves a currency war. A kind of war in which precious metals, not only gold will shine. It is true, the shiniest will be the yellow metal, and that is because gold is really the most important geopolitical metal.

Keywords

Gold, sovereign reserves, geopolitics, economy

1. Introduction

The Periodic Table of the Elements comprises more than 80% metal. The chemical elements that are called metals have certain physical characteristics, such as gloss, good conductor of heat and electricity, malleable and ductile etc. Among these, some have gained the name of precious metals as a result of beauty, rarity, physical properties which are endowed by nature and, especially, their chemical stability (does not corrode in the air), which makes them very valuable. Gold, silver and platinum are considered precious metals. Gold and platinum fall among the rarest metals on earth, whose amount is extremely small in nature.

Gold and silver are known from ancient times and, like platinum metals are found in nature in its native state. According to Săntimbreanu (2005), gold seems to be the first metal known about 20,000 years ago. Its spread is highly diverse, from solid rock and crystalline quartz to sand and gravel. Ores which contain gold may also carry silver, copper, iron, or platinum. Yellow, bright, highly malleable and ductile, gold is extremely resistant as it does not oxidize (with air, water or with other corrosive agents) and is therefore preferred by jewelers.

Like no other metal, gold has had a special course; it has influenced history and triggered fantasies of enrichment. Almost 5,000 years ago gold objects were found in Egypt. Artisans of ancient civilizations used a lot of gold to decorate temples and tombs. The same applies to ancient Greece, where tombs were

discovered in the ancient city of Mycenae. Here, there was a great variety of gold figures such as masks, cups, tiaras, jewelry and hundreds of decorated beads, all made about 3,500 years ago by skilled craftsmen (Kirkemo, Newman and Ashley 2001). In medieval times alchemists believed that gold is the source of eternal life and strove in vain to turn other metals into gold. This metal influenced and inspired fashion designers, and it is known as the most beloved precious metal in the world. Its value remains intact, regardless of the international political climate (war or peace), the running of the economy or fluctuations in other markets. And, above all, gold is the safest way to preserve wealth.

In such circumstances it is reasonable to conclude that gold has a universal "mission", since its extraordinary rarity and its properties represent the primordial elements which dictate its value (Gotthelf 2005). All the above have tempted humanity, thus explaining the Gold Rush. Gold also plays a vital industrial and monetary part in the economic flow and that is why it is so cherished by all of us. Many of the commonly used expressions such as "golden wedding", "your mouth is gold" or "golden era" refer to a supreme value. So it cannot be a mere coincidence with gold braiding on concepts such as value, good luck and achievement.

2. Mining reserves and production

Well, who are the international actors that own value, good luck and achievement, or rather, which are states that have large reserves of gold and in what quantities?

In terms of reserves, unlike radioactive metals, for example, the precious are better kept secret. When we need thorough knowledge of global reserves of gold, silver and platinum we come across several drawbacks. Almost all institutions and sites concerned with precious metals provide limited statistics. Moreover, these statistics show only the top ten, fifteen and, rarely, the top twenty countries with reserves of precious metals. By comparing figures provided by these entities it is revealed that there is contradiction of values, which undermines the validity of the data. The role of a stable means to store and increase wealth given by the possession of gold is the best explanation for the secrecy that hangs around. And, anyhow, available data helps us understand better the geography gold.

Table 1. The main states with gold mine reserves (2013)

No.	Country	Reserves (tons)	% of world amount
1.	Australia	9 800	17,8
2.	South Africa	6 000	10,9
3.	Russia	5 000	9,1
4.	Chile	3 900	7,1
5.	USA	3 000	5,5
6.	Indonesia	3 000	5,5
7.	Brazil	2 400	4,4
8.	Peru	2 100	3,8
9.	Ghana	2 000	3,6
10	Canada	2 000	3,6

Source: U.S. Geological Survey (2014)

World gold reserves amount to almost 55,000 tons (33,000 tons according to other values) (US Geological Survey 2015). Out of these, nearly a quarter is contained in porphyry copper deposits, hence the huge variety of states possessing smaller or larger amounts of gold reserves, more than 90 countries (Figure 1). The geographic distribution of these reserves is quite balanced in the two hemispheres (North and South) unlike other resources, which recorded an unbalanced distribution, disfavoring the south entirely. By a continent classification, America summarizes the higher percentage exceeding 26% of the total. The opposite is Europe, whose reserves and production (excluding Russia and Turkey) are very low. Table 1 shows that in terms of state actors, reserves are more balanced. There isn't any state in the table that has an overwhelming proportion of the world total, although

Australian reserves reach 1/5, thus detaching from the others to some extent.

Image 1. States with secure gold mine reserves



According to the *World Mineral Production 2009-13 reports*, conducted by the British Geological Survey, the total world gold production in 2013 amounted to 2790 tons. In the course of history, global gold production has grown constantly. And, although less than half of the states produce gold, Table 2 shows that world production is carried out largely by only a few countries: China, Australia, USA, Russia, South Africa, Peru, Canada and Mexico, together summing up 2/3 of the total. Many other countries produce gold in very small quantities and therefore usually not captured in official statistics. For instance, Benin, Central African Republic, Congo and Uganda in Africa and Oman and Taiwan in Asia produce more than 100 kg of gold per year and they are not officially marked in the statistics.

Table 2. The main gold producing states (2013)

No.	Country	Production (tons)	% of world amount
1.	China	428	15,3
2.	Australia	265	9,5
3.	USA	228	8,2
4.	Russia	213,9	7,7
5.	South Africa	159,7	5,7
6.	Peru	151,5	5,4
7.	Canada	124,1	4,5
8.	Mexico	117,9	4,2
9.	Ghana	90,5	3,2
10	Brazil	79,6	2,9

Source: British Geological Survey

Since 2008, when it became the main world producer of gold, China has always been the leader (current market rate is over 15%) and it is also among the largest global consumer markets. Chinese holdings of gold are in a relatively large number (approx. 700 mines). Indonesia, although production has decreased to more than half in recent years, remains one of the major producers in Asia. Its territory includes the Grasberg gold and of copper mine, which is believed to

hold the largest gold reserves in the world (1,839.2 tons).

Note that the aggregate production of the American continent states dominates the gold sector. North America is among the largest producers with three countries in the subcontinent (Canada, USA and Mexico), and their production represents 17%. Only if we look at the case of Mexico, we can find that in only three years (2008-2011) gold production increased by 55% (see www.goldfacts.org), becoming one of the top ten world producers. Together with the other continental producers America is reaching 1/3 of global production. Peru, despite the tumultuous history of gold taking the path to the former ruler (Spain), is still a major producer, and even one for the future, as are Brazil, Argentina, Colombia and Chile. Over 20% of Peru's export revenue came from trade in gold, and in recent years it has contributed with approx. 14% to the government budget revenues. The gold mining sector is a real job creator in Peru due to its largest gold mine in Latin America (Yanacocha).

CIS is also a major player on the gold market; Russia, Uzbekistan and Kazakhstan are the most important representatives of this organization. In recent years, Kazakhstan has almost doubled its production from 22.8 tons (2009) to more than 43.4 tons (2013). By contrast, over the same period, Uzbekistan has maintained a steady production. Russia, not only is the fourth world producer, but it is also the fourth on the jewelry market with over 75 tons of gold as ornaments (see www.goldfacts.org).

Africa, which is rich in precious metals, radioactive metals and rare metals, includes two of the largest global producers South Africa and Ghana. For Ghana, since 1991 gold began to exceed cocoa as the main export product. The history of Ghanaian gold is very long. Its old name, Gold Coast, evokes the exploitation of this metal since colonial times. South Africa, on the other hand, has a historical reputation in the production of gold. Almost the entire twentieth century was dominated by South African gold production, which in 1970 reached 79% share of the world total. This state has produced nearly 40,000 tons of gold since the first official statistics, i.e. 1/3 of the total gold global extraction (see www.goldfacts.org). South Africa is the land of the largest gold mining in the world and Tau Tona (literally "great lion") holds the record size with 3.9 kilometers underground. Cape Town, the legislative capital of South Africa, is the host of the largest international conference dedicated to gold mining, which annually attracts about 10,000 professionals from nearly 1,000 mining companies. In addition to South Africa and Ghana, top productions are recorded in Tanzania, Mali and Burkina Faso.

In the space of Oceania Australia (second world producer) and Papua New Guinea are noteworthy for their considerable productions. For a very young country such as Papua New Guinea, gold has a substantial economic contribution. With regard to Australia, it has been consistently among top world producers. Almost half of the nineteenth century worldwide extracted gold came from Australia, which has led to a similar gold fever as in the USA.

3. The importance of gold

Apart from its scarcity and physical-chemical properties, gold is also used otherwise.

Generally, people are tempted to imagine gold in the form of jewelry; hence its most common form of economic use: the industry of jewelry and luxury. Approximately 75% of the gold produced globally is used to create jewelry. A large global center of gold jewelry industry is the German city of Pforzheim, where more than 25,000 people work in the jewelry trade (Emsley 2011). We also tend to imagine it in the form of large ingots. Thinking thus, we only associate it with individual wealth, or the more general idea of prosperity. However, if you break this stereotype of gross wealth, we will come to know the true uses of gold. Therefore, gold is often used in medicine, engineering, aerospace and aeronautics, as far as military industry, electronics and even in Formula 1.

On the other hand, money and precious metals have almost always been in a relation of dependence and influence. The history of money practically merges with the precious metals. Therefore, coins emerged and developed independently, but they were most often made of gold or silver. Incidentally, platinum was used also to achieve coins.

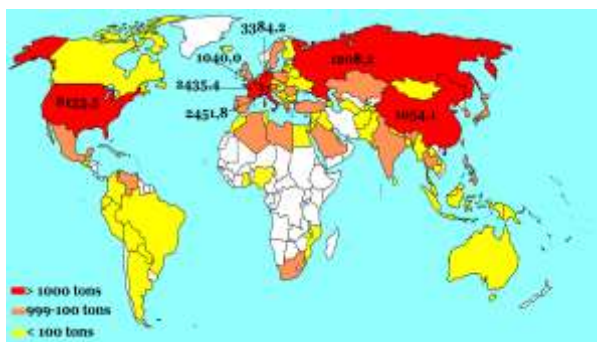
The qualities of gold (divisibility without loss of value, homogeneity, while incorruptibility, high value and low volume etc.) have led people to transform it into money. Platinum was less used in minting because it melts at very high temperatures, making this a very expensive process (this is the reason why it was abandoned in Russia in the nineteenth century). Another impediment of platinum was its great scarcity. Another variant could have been silver, but it oxidized black and golden brown. Thus, gold was the metal with the most benefits, and that is why it has long been preferred by companies worldwide to the detriment of the other two. Moreover, gold can easily be treasured for a very long time due to its incorruptibility. Not being damaged by almost any substance, gold could circulate freely in the form of money. Its purity is comparable to two pieces of gold regardless of the space which they were extracted. Finally, the gold produced in antiquity has the same value with the currently extracted.

By far the most important quality of gold, highlighted properly by Murgur Isărescu, is its divisibility. Gold can be divided into very small parts and subsequently it can very easily be recomposed into those parts without losing the substance or value (Weatherford 1997), and this quality has been crucial in the minting of gold.

4. The sovereign gold reserves

Worldwide, the total gold reserves - including the reserves of IMF, ECB (European Central Bank), BIS (Bank for International Settlements / BIS) and WAEMU (West African Economic Monetary Union / Economic and Monetary Union of West Africa) - amounts to about 32,000 tons (World Gold Council 2015).

Image 2. The sovereign gold reserves in February 2015



Almost all countries of the world, along with the desire to increase their national economies and currencies, are trying to diversify the portfolio by creating economic foreign exchange and gold reserves (Image 2). As long as the major currencies of the world economy (the dollar, the euro and the yen) were still impaired, gold, both in terms of production and reserves sovereign capital acquired geostrategic significance. Alan Greenspan, former chairman of the Federal Reserve, said that gold is money "in extremis" (as cited in Popescu 2014), that gold can be used anytime by states to get cash. This is why gold is part of most central banks' reserves. Moreover, gold is the only backup which is not devalued debt unlike the currencies mentioned above, which, according to Alasdair Macleod (2013), have big problems: the yen is collapsing, the euro area has problems, and the US economy is, at best, stagnant.

Table 3. The big owners of sovereign gold reserves (2015)

No.	Country	Reserves(tons)
1.	USA	8 133,5
2.	Germany	3 384,2
3.	Italy	2 451,8
4.	France	2 435,4
5.	Russia	1 208,2
6.	China	1 054,1

7.	Switzerland	1 040,0
8.	Japan	765,2
9.	Holland	612,5
10.	India	557,7

Source: World Gold Council

The question is not who controls the stock of central bank gold reserves, but rather whom, i.e. what countries control the production of gold. For this it is sufficient to look at Table 2. Observe how China dominates world production by more than 15% of the total. Its production is almost 45% higher than the next. For example, while China "rules" over world production, the US has the largest sovereign reserve and is home to one of the largest gold mining companies in the world (Newmont Mining). With over 8,133 tons of gold (Table 3), the United States stands out worldwide; its federal reserve is nearly as high as that of Germany, Italy and France together, which are the following three world ranking states. The US Leadership has been the same since 1952, when it held a volume of over 20,000 tons of gold. However, reserves have fallen below the threshold of 10,000 tons in 1968.

On the other hand, China's reserves (1,054.1 tons) are far from comparable to the US, even though it is the second global economy in terms of total GDP and among the highest in the world. Only five countries currently hold a quantity of gold in the national reserve higher than the Chinese. However, Dan Popescu (2014) has serious doubts about the accuracy of data values published by the Chinese authorities; China deliberately underestimates the amount of its central bank gold reserves. However, just like Russia, China has greatly increased gold production in recent years. Moreover, in 2006 Russia began to build gold reserves to diversify its currency portfolio and to strengthen the ruble (Badkar 2012). But, the economic war which began in 2014 developed by American-European economic sanctions and they seriously damaged the Russian currency. Due to the Russians' desire to have an international currency, it has led Moscow authorities to get rid of the euro and the dollar by buying massive gold. Thus, in 2014, Russia's central bank has purchased a significant amount of gold, surpassing Switzerland and China in the world rankings (Holodny 2014).

The two great rival powers of the US transformed large amounts of US dollars coming from Treasury securities into gold, as a means to limit inflation. During July 2009 - July 2010, the official repositories of China's US Treasury securities fell by almost 10% (Ferguson 2011). Such movements, the economist Michel Chossudovsky says, are a variable geopolitical confrontation between great powers. China started to buy even more gold to increase sovereign reserves,

thus ensuring that the precious yellow metal will gradually replace the immense reserve in US dollars (Chossudovsky 2013). India closely follows its neighbor to the east, but rarely talks about its intentions to buy gold. The core reason is that, compared to foreign currencies (India is the new holder of foreign reserves in dollars), gold is the safest investment.

Except the other great powers, China – and to a lesser extent Japan – is interested to amortize risks and gradually discard "the exorbitant privilege" of the United States to print its global official currency. What de Gaulle's France required half a century ago, is now attacked by the Chinese government. However, in the absence of the gold standard the stated purpose is to get rid of dollars in favor of gold reserves in financial institutions safes. Over 1/5 of the federal public debt of the United States is owned by the monetary authorities of China. In 2010, the Chinese Ministry of Commerce said that because of uncontrolled issuance of US dollars, international commodity prices continue to rise, so China is affected – according to Chinese officials – by imported inflation (Ferguson 2011). In the registry, a representative of the Chinese People's Bank of China noted that the US is engaged in an "uncontrolled" and "irresponsible" action of printing money, which implies a high risk for the world and, above all, for countries with substantial reserves of US currency (Table 5). The Chinese financial expert's conclusion is that 'as long as the world shall exercise control over the issuance of a world currency such as the dollar (...) the possibility of another crisis is inevitable "(cited Ferguson 2011: 446).

Table 5. The main states with US dollar reserves (2015)

No.	Country	Reserves (mil. \$)
1.	China	3 843 018
2.	Japan	1 231 044
3.	Saudi Arabia	731 920
4.	Switzerland	505 463
5.	Taiwan	418 980
6.	Brazil	360 965
7.	South Korea	358 798
8.	Russia	339 371
9.	India	317 956
10	Singapore	256 649

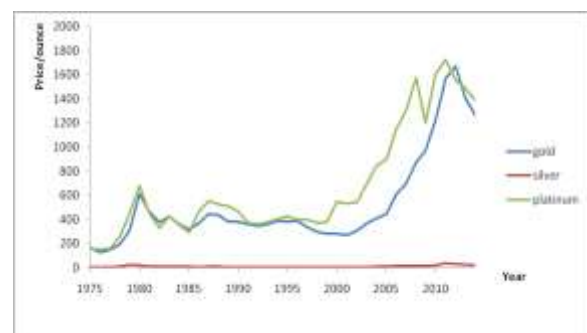
Source: IMF

The actions of the two countries, the US and China, one issuing currency, the other buying the American currency of which it is trying to gradually get rid of in exchange for the purchase of gold, have affected other countries. Ferguson calls this situation a currency war, which was fought between Chimera – united economies of the United States and China – and the rest of the world. The two countries have everything to gain, while countries such as Brazil and Indonesia had lost by the

effective increase in exchange rates between 2008 and 2010. The first increased exchange rate by 17% and the second by 18%, both states holding large amounts of US currency. Brazil is the sixth largest holder of dollars and Indonesia – with over 100 million dollars – ranks as the sixteenth according to the IMF ...

Disposal of dollars in exchange for the purchase of gold is even more interesting, as the global crises augment the price of precious metals. Since 2008, it appears that Western central banks have stopped selling gold and banks in emerging economies (China, India, Russia, Brazil and even Turkey) have accelerated the purchase of gold. The extreme indebtedness of western economies coupled with the resumption of emerging economies have greatly destabilized the international monetary system based on a very weak dollar (Popescu 2014).

Image 3. The price of precious metals during 1975-2014



Source: KITCO

5. Instead of conclusions

Unofficially, the gold standard shadow remained until 1990 when the Cold War began. Easing East-West relations has led to a steady decrease in the gold ounce, ranging from \$ 800 to less than 300. Only time was short, and the terrorist attacks in New York on 11 September 2001, the wars in Afghanistan and Iraq, the economic and financial crisis of 2007 and the annexation of Crimea to Russia have changed perspectives on gold and its price climbed sharply during 2001-2014. When the global financial system nearly collapsed in 2008, gold was the one that revitalized it (Popescu 2014). Basically, after several years when gold has been ignored, now it is beginning to rejoin the international financial system and it seems possible to witness a return to the gold standard. Moreover, Western central banks are selling gold to balance their economies, while the emerging economies are buying gold. This metal is crucial in times of crisis and war, so it is imperative that states deposit gold in the country and not outside its territory. Alliances can do and undo and therefore, the

geopolitical gold is most certainly in home safes, because "gold is money in extremis".

Dan Popescu, to whom we referred before makes the most eloquent picture of the current geopolitics of gold. He says the world stage is marked by a new Cold War, installed with the annexation of Crimea, as it is not G2 but G0. G2 is a world where global alliances are: US-EU and Russia-China, and G0 is a world in which no one is allied in fact to anyone. The US and the EU are not really allies, as Russia is not fully supported by China in its international actions. This is the outline of a G0 world and thus, there are prevailing uncertainties in the international environment. The price of gold is manipulated by Western countries, while fighting for gold property worsens. Emerging economies, as we have said many times, want to exchange dollars for gold reserves as quickly as possible so as to avoid deprivation of their wealth by devaluing the US dollar.

Consequently, the continuous collapse of the world stage and the attempt to create a new international order reconfiguration involves a currency war. War in which precious metals, not only gold, will shine. It is true that the shiniest of all will be the yellow metal, and that is because gold is really the most important geopolitical metal.

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