

The Dark Side of Dubai's Economic Boom

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People from across the globe have identified Dubai as a paradise of wealth and opportunity. It is a transcendent hub of international trade, finance, and luxury. It garners immense attention of numerous multi-million dollar corporations from all across, in the gleaming expectation of further progress. The captivating heights of its skyline offer visitors an almost addictive hope of success, which doesn't discriminate, and is applicable to one and all. However, Dubai hasn't always been like this.

In the 60s, Dubai was just a fishing town, and had been that way for over 200 years. But that drastically changed when Dubai found oil along with several other regions around the Persian Gulf. Although its reserves were much smaller compared to the rest of the rest, the then ruler, Sheikh Rashid Bin Saeed Al-Maktoum sought to take advantage of this. Referred to by many as the father of Dubai, Sheikh Rashid's vision transformed Dubai into the eloquent metropolis it is today.

Through its tremendous development, along with a timeline rattled with conflict, Dubai has emerged as a world leader. A bustling hub for tourists seeking moments of rejuvenation. While businesses boom, and real-estate demand reaches an alarmingly high, Dubai really seems like the place of dreams.

However, this is just the surface, its foundations have always been questionable, and its concealed roots run deeper than its oil reserves, sometimes hiding in plain sight. A tale of illicit trade, and alarmingly illegal practices abundant behind a mask.

What lies beneath its cashmere sheets? And why is it so troubling? This is the dark side of Dubai's economic boom.

*Video editor puts “Viewer Discretion is advised. The purpose of this video is to inform you based on our research, you can decide whether or not the practices described in this video are ethical or not.”

Problematic Gold Trade

Dubai is an emerging player in the global gold trading scene, and has shown remarkable adaptability. It actively explores new markets and, at times, takes shortcuts to make gold available. UAE's significant share in the world gold trade in 2018 is evidence of the success of this approach. Back in 1996, the United Arab Emirates didn't even rank among the top 100 gold-importing nations.

Within twenty years, the United Arab Emirates has become one of the top four gold-importing countries, surpassing even Hong Kong and the United States. Most of the UAE's gold refineries are in Dubai. They make up about 80% of the country's gold imports and exports, either by how much they make or how much they sell.

IMPORTED GOLD BY THE UAE IN 2018, BY WEIGHT

Rank	Reporting Entity	Weight (kilograms)	Trade Value	Unit Value (per gram)
1	Switzerland	2,248,611	\$63,321,203,855	\$28.16
2	China	1,121,317	\$45,805,882,835	\$40.85
3	India	945,060	\$31,756,390,865	\$33.60
4	United Arab Emirates	923,247	\$27,672,052,091	\$29.97
5	China, Hong Kong SAR	665,575	\$23,627,497,773	\$35.50
6	United Kingdom	629,049	\$25,564,378,411	\$40.64
7	Singapore	338,389	\$13,514,112,543	\$39.94
8	Turkey	299,556	\$11,300,396,230	\$37.72
9	USA	232,441	\$9,641,469,104	\$41.48
10	Italy	158,703	\$4,056,681,077	\$25.56

SOURCE: UN Comtrade Database, accessed April 17, 2020, <https://comtrade.un.org/data/>; data reflects the gold classified under HS Commodity Code 7108.

It may be argued that the most concerning aspect of the UAE's strategy is the source of its gold. The UAE's gold acquisition is different from other major gold hubs that primarily source gold from a handful of countries, usually fellow gold hubs or major gold-producing nations. According to United Nations trade data, in 2016, the United Kingdom imported around 1,208 tons of gold from six countries in a specific order: Switzerland, Canada, South Africa, Hong Kong, Australia, and the United States.

▶ Dubai's Dirty Gold I ARTE.tv Documentary

The United Arab Emirates gathered gold from more than a hundred nations in 2016, with the bulk of the gold coming from Africa, South America, and Asia. These countries often don't engage in large-scale gold mining like others do. Instead, they are known for small, traditional ways of mining gold, often done by local artisans and on a smaller scale.

This type of gold mining, called artisanal and small-scale gold mining or ASGM, doesn't require a lot of money or advanced technology. It involves a lot of labor and is important for income in rural areas. However, in some countries, such as the Democratic Republic of Congo, Sudan, and Venezuela, ASGM gold may be used to fund illegal armed groups or be connected to serious human rights violations. This is the reason ASGM gold is sometimes referred to as a “conflict mineral.” In countries without these issues, ASGM can still have problems such as a lack of government control, illegal export, and smuggling.

Because of these worries, there are rules and guidelines about where gold comes from and how it's made. These rules typically overlap. They all demand that countries receiving gold from ASGM be able to determine if it came from a place with conflict or high risks, or if it's connected to serious human rights concerns.

More requirements include making sure there is no child labor, having proper mining permits, and proving that the gold was legally exported. The gold refiners usually avoid using it because it's hard to be sure that ASGM gold is clean and free from these issues

In Dubai, the standards for handling gold from small-scale mining are not followed as strictly as they are in other places. Gold from this type of mining is often sold in a small place called the gold souk. Many small dealers buy and sell gold there. Official rules say that dealers should have a plan to check where the gold comes from, but these rules are not enforced.

 [Dubai's Gold Souk : A Look Inside the Dubai Gold Market](#)

For the gold dealers to sell in the souk, they only need one document, a paper from UAE customs. This paper indicates that the gold was declared when it arrived in the UAE, but it does not specify where the gold came from. Because

of this, the dealers can buy gold from any country, no matter how it was produced. They typically say they are buying “scrap” gold. The gold can be sold to buyers or refineries in the UAE, making it seem like the origins of the gold are not a problem.

Dubai's lack of rigorous oversight and its willingness to deal with gold from low-cost mining nations have made it a major player in the gold market. While other gold centers may not accept this type of gold, Dubai does. In 2016, almost half of the gold that went into Dubai came from countries that should be worried about according to international standards. For instance, gold originating from countries such as the Democratic Republic of Congo and South Sudan is typically transported through Uganda to conceal its true origin.

The process of distributing this type of gold from designated sources to Dubai's dealers and refineries effectively purifies the gold's origins. This makes it okay for other big gold markets like Switzerland and India. In 2016, Switzerland and India brought more than 200 tons of gold from Dubai together, which was worth over \$8 billion. That number has slightly increased over the years, but we are yet to know how much of it has been from ASGM.

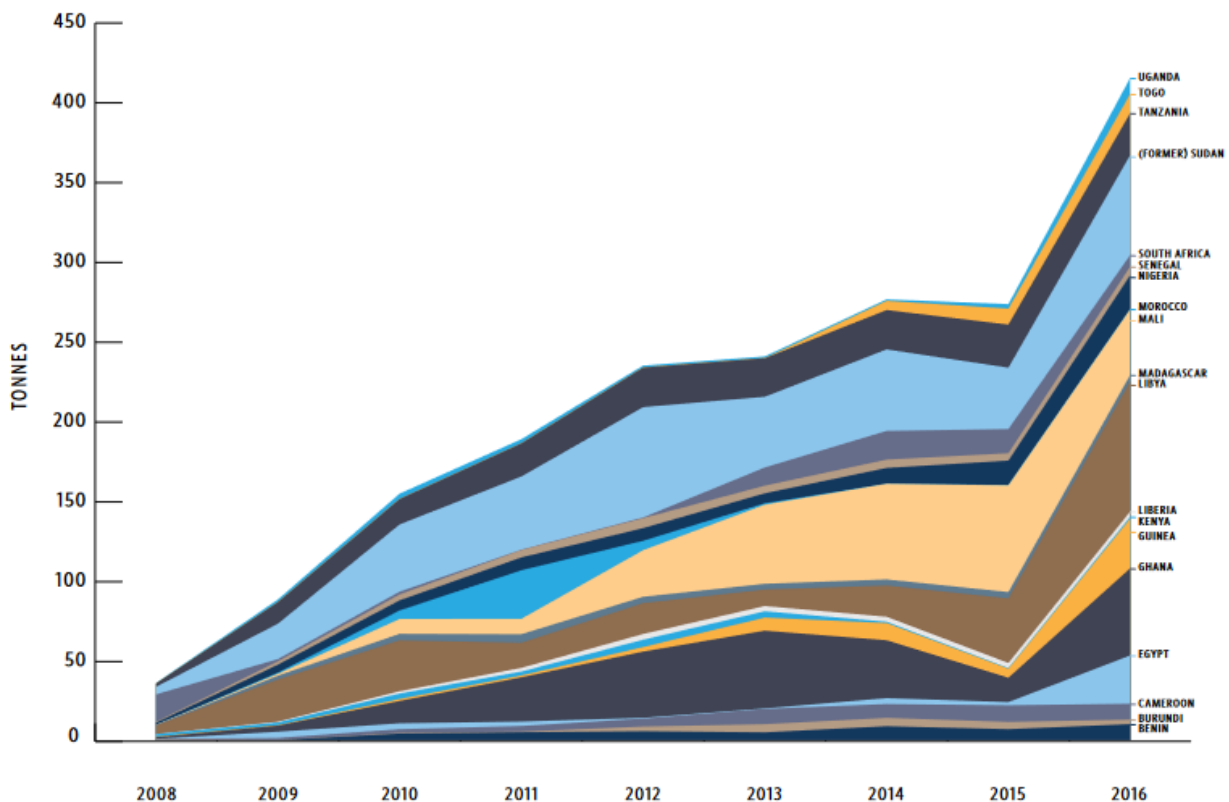
Gold Smuggling Den

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At the crux of it, gold is essentially smuggled into Dubai. A very bold claim, but a variety of reports has brought this into international attention. Gold is being introduced into Dubai in ways that are not always straightforward. What's interesting is that gold is arriving in Dubai from all over Africa, not just one specific place. The majority of this gold is transported by air by individual couriers, who typically carry between 2 and 20 kilograms of gold. A typical quantity is about 10 kilograms.

Dubai's airport is now the busiest in the world when it comes to the number of passengers. Many African cities offer direct flights to Dubai, and they're usually pretty short, lasting no more than five hours, and not terribly

Another advantage that the United Arab Emirates has, which is not completely legitimate, is their relaxed customs procedure. As mentioned earlier, a lot of the gold is brought to the UAE by people traveling on airplanes. These travelers, who are carrying gold, undergo security checks like everyone else. This includes x-ray scans, which can easily show if someone is carrying gold bars. This might lead you to believe that African countries, which send out gold, could enforce their own laws and rules about exporting gold, especially when it comes to things like royalties. But strangely, the opposite seems to be happening.



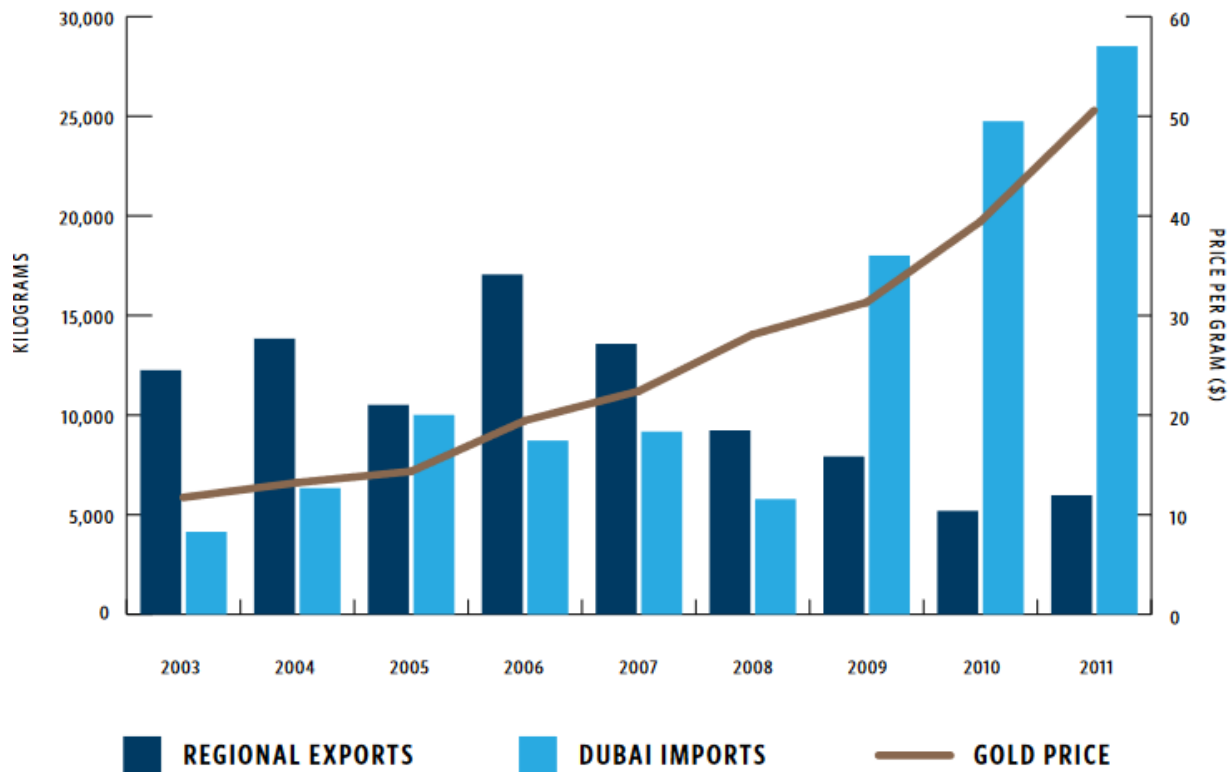
This graph shows a comparison between the amounts of gold that were formally declared and sent out from eleven countries in the International Conference on the Great Lakes Region or ICGLR, and the amounts of gold that arrived in the UAE from these same countries.

The results indicate that the price of gold went up four times between 2003 and 2011, going from around \$12 per gram to over \$50 per gram. At the same time, the amount of gold brought into the UAE also went up significantly, from about 4 tons in 2003 to over 28 tons in 2011.

However, there's something puzzling. The amount of gold that was legally declared and sent out from these countries decreased considerably every year during that same time.

The amount of gold that's legally exported versus the amount that arrives in Dubai, shows how much gold is being smuggled from these countries to Dubai. The 2011 difference was around 22.5 tons, which is equivalent to a little over \$1 billion in smuggled gold. If we assume that there's a tax rate of just 2 percent on the exported gold, this would mean that these countries are losing around \$22.5 million in taxes each year.

ICGLR NATIONS' GOLD EXPORTS VERSUS UAE GOLD IMPORTS



It shows how African exporters are getting better at avoiding rules for exporting. Each country has its own way of doing this, but it often involves getting special agreements with airport security. These agreements ensure that they will not have to submit their gold to the x-ray machines at the airport.

Some gold couriers who regularly travel from Bunia in the Democratic Republic of Congo to Entebbe in Uganda and then to Dubai said that their bosses arranged these deals with higher-ups at the airport. Even though the x-ray machines at Entebbe airport can see the gold, the courier's gold is allowed through with help from a supervisor.

The couriers don't know the details of the financial arrangements that make this happen. Once they get on the plane and go through security, they don't need to hide the gold anymore. When they arrive in the UAE, they tell customs

about the gold, since there's no tax, and fill out a form saying where the gold is from.

They usually state which country it is from, even though it may not be true. Occasionally, they are asked to show their boarding pass to prove where the gold came from, but this is not often the case. With the form in hand, the couriers will be able to sell the gold in Dubai or anywhere else in the UAE. They typically sell it in the Dubai gold souk. The souk dealers write these purchases as scrap gold, which makes it appear that the gold can be sold to one of Dubai's gold refineries later on.

So, a big question comes up: Is Dubai becoming a smugglers' gateway? There are a few things that make people wonder this. The city of Dubai is a major financial hub, and the regulations surrounding gold transactions aren't particularly strict. It's also in a good location between Asia and Africa, and it has areas called free trade zones that make things easier for businesses.

All of these factors have contributed to Dubai's reputation for being associated with illegal activities. This is supported by the fact that more and more smuggling, gold laundering, and sneaky financial activities are happening between Africa and Dubai.

Gold is brought secretly into Dubai, and the money made from selling it is used to buy goods that are then sent back to Africa, usually with fake prices on them. These goods are sold for more money, making it a way to make illegal funds grow even more. Because trade between countries is growing considerably, it's becoming harder for rules to keep up and stop these things.

The free trade zones in Dubai make it easy for criminals to use the gaps in the rules. A study in 2010 found a lot of problems in these zones that make them good places for money laundering. These include not watching closely enough, not being clear about what's happening, not having enough information about what's being traded, and not connecting different systems correctly. Dubai's free trade zones are doing well. In 2018, almost 1,900 new companies joined the Dubai Multi Commodities Center, which was up 12 percent.



People who deal in gold often employ a technique called hawala to carry out shady financial transactions. Hawala is a way to move money between countries without actually moving the money. It is usually related to the connection between money and the import and export of goods. A combination of not very strict rules on bringing in gold, not watching the free trade zones closely, faking trade prices, and moving money in secret ways like hawala helps illegal money networks.

In Dubai, both legal and illegal traders get good tax rates. In 2017, the UAE taxed gold and diamonds by 5% when they were sold to other businesses. However, after gold traders experienced a terrible time due to this tax, sales declined by 30 to 40 percent from the year before, the UAE removed the tax in 2018. This helped Dubai stay at the top of the list for trading gold around the world.

Deep-rooted Corruption

Dubai has become a haven for various corrupt and criminal individuals from across the globe. It draws Afghan warlords, Russian mob members, Nigerian corrupt leaders, European money launderers, Iranian sanctions evaders, and gold smugglers from East Africa. These groups find Dubai to be a favorable location for their activities.

Dubai's real estate market is a hotspot for corrupt money. The city's focus on attracting foreign buyers has resulted in lavish apartment towers and man-made islands dotted with luxury homes. Property developers and real estate agents often receive large sums from politically influential figures, their families, associates, and other suspicious buyers. Even people who are facing international sanctions use Dubai's real estate to launder money because of its weak regulations and lax enforcement.

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Dubai has around thirty free trade zones, which provide a fertile ground for trade-based money laundering. With little supervision, these zones let businesses hide the proceeds of crime by making up invoices and making up

trade documents. Additionally, many migrant workers in Dubai are treated as commodities under the exploitative Kafala system, sharing similarities with human trafficking.

Even though the United Arab Emirates government, Dubai officials, and Emirati law enforcement have the necessary knowledge and capability to address these issues, it appears that they are aware of Dubai's role as a passage for illegal financial activities. This condition seems intentional, rather than accidental, within Dubai's political and economic landscape.

These actions extend beyond its borders. The UAE holds strategic importance for countries like the United States and the United Kingdom for security and trade partnerships. Additionally, historical and commercial ties with Iran also play a role. These illicit activities have global consequences, fueling conflict, organized crime, terrorism, and poor governance in various countries. As such, what occurs in Dubai and the UAE has far-reaching implications for international stability and security.

Dubai's involvement in criminal activities poses complex challenges for anti-corruption and law enforcement efforts. Illicit financial flows and complex facilitation networks converge in Dubai, corresponding with various regional concerns.

The city's secrecy prevents efforts to determine whether corrupt entities are using it for money laundering or property purchases. Officials might not even have a say in it. International law enforcement struggles to access information and cooperation from Dubai's authorities.

The Financial Action Task Force or FATF highlighted Dubai's limited action against money laundering in a 2020 report, leading to a year-long observation period. Dubai's personalized institutions and lack of accountability mechanisms intensify issues, as compared to countries with strict investigations.

Dubai's absence of transparent elections, a free press, civil society, and protest rights empowers elites to resist reforms without domestic or international

pressure. Stronger motivators and pressure are needed to drive Dubai towards anti-corruption and anti-crime reforms.

Dubai has always been a city of dreams for the east, but its inability to fight corruption stands hoists red flags for an industry. Yet, Dubai holds substantial promise, as it has brought success to many. While no city is perfect, it is important to read between the lines, and balance the pros and cons. Dubai's economic boom has pulled in a substantial number of cons, but its incredible heights shine bright for those looking for wealth.

So, tell us, did you know about any of the illegal activities we talked about? And what should Dubai do better? Let us know in the comments below, and as always, thanks for watching.

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