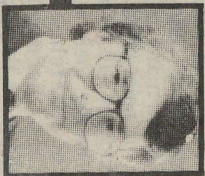


ERIC MARGOLIS



The noble art of smuggling

Abu Salam is a smuggler, and very proud of it. "My goods go all over India and Pakistan, even into Russia," he says with a grin.

During the cool dawn hours, Abu Salam goes down to Dubai's port and supervises the loading of his outbound cargos: Cases of Rolex watches, Dupont lighters, Estee Lauder and Dior perfumes. These precious commodities are carefully stored in the holds of two-masted dhows, ancient sailing vessels that conceal, beneath their weathered decks, high-powered diesel engines.

Then come stacks of special canvas vests, covered with pockets holding small slabs of gold — the "10-tolla bars" beloved of gold-hoarding Indians. Couriers will don these vests beneath their clothes and carry them across India.

From Dubai, and the other ports on the Arabian Gulf, smugglers' ships carry a steady stream of luxury goods and gold to India, Pakistan and Iran — nations that ban the import of such goods because of their acute shortage of foreign currency. Smuggling into these restricted markets is a noble and time-honored tradition.

To the inhabitants of the impoverished countries of Africa, Asia and Eastern Europe, luxury commodities have become

a sort of "super currency" — and one that is immune to inflation or devaluation.

Watches, lighters and perfumes are being used by "soft currency" nations — none of whom want each other's almost valueless paper money — as a new form of international exchange. Interestingly, what we have here is a form of return to the gold standard, except that these countries now use luxury goods instead of the precious metal.

An enterprising Indian smuggler explains, "We are a poor nation of 750 million. But 1% of our population, 7.5 million, still eat every day off gold plates." These "hidden" wealthy are the market for the smugglers' goods.

Perfumes and watches go into northern India and then across the border into Afghanistan. There, they are loaded onto mules and transported into Russia, a country where the demand for luxury items is almost limitless. Bribeed KGB border guards close their eyes.

Arabs and Asians are not alone in this thriving industry. Moe and Harry operate out of a dingy loft in downtown Manhattan. Each month they fill a 40-foot shipping container full of decadent capitalist baubles, jeans, and rock records. Marked as "Machine Parts," these containers go

to special stores in Moscow and Leningrad reserved for senior communist party officials and their high-living families.

Nearly all major Western manufacturers of luxury goods cheerfully assist the smuggling of their goods into the world's less fortunate areas. But they face two important problems: Grey trade and counterfeiting.

There is no guarantee that Abu Salam or Moe and Harry will actually ship their "black" goods into restricted markets. A substantial portion finds its way back to Western Europe or the United States. Since the manufacturers usually sell their goods to smugglers at a substantial discount, there is a strong temptation to resell them back into the high-priced Western markets where distribution is strictly limited by the image-conscious producers. This is why "grey products," such as premium watches or perfumes, are often found selling at bargain prices in discount stores.

Counterfeiting has become a major threat to the manufacturers of luxury goods, particularly in Asia and Africa where patent laws are either weak or non-existent. Taiwan and Hong Kong abound in underground factories that copy virtually all major brands of perfumes,

watches, clothing and accessories. Some of these copies are shoddy; others are so good that even the real manufacturers have trouble identifying the bogus products. New coding systems and better legal enforcement are now being used to combat this growing counterfeit trade.

Most governments of Third World or communist nations tend to wink at smuggling, provided that it does not reach excessive proportions. Just as they cannot stop the inflow of Western ideas and culture, these regimes can no more limit the insatiable demand for high-quality, status products. By allowing a certain amount of smuggling, these governments are able to partially defuse internal dissatisfaction and ensure a steady flow of luxuries to political elite groups.

The high Communist party bureaucrat in Moscow bringing the latest "Police" record to his mistress in Moscow, or the Indian official, who goes home, takes off his Gandhi outfit and puts on his cashmere sweater and Rolex watch can thank Moe, Harry and Abu Salam. These happy entrepreneurs manage, while enriching themselves, to bring a little bit of brightness to the drab, socialist world.

(Eric Margolis is a member of the Canadian Institute of Strategic Studies.)