Hawala Transformed: Remittance-driven Transnational Networks in the post-Imperial economic order

Revised version of a paper originally entitled "Processes of Consolidation and Settlement in Remittance-driven Hawala transactions", presented at a World Bank/DFID International Conference on *Migrant Remittances*: *Development impact, opportunities for the financial sector and future prospects*. London October 9th and 10th 2003

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1 Migration, Remittances and Economic Development

Migrant remittances are now very big business. In addition to the $72.3 billion worth of funds which Rathore (2003) estimates were transferred through formal banking channels in 2001, there are good reasons to suppose that funds worth at least as much again passed through more informal channels such as IVTS and hawala. No matter what form their mode of delivery may be, the arrival of these asset transfers have far reaching economic consequences at their destinations in the developing world, since their value is now many times greater than that delivered by formal development aid. Moreover the format this new form of 'aid' is particularly beneficial as far as its recipients are concerned. Besides incurring no external debt, the greater part of this flow of monetary resources – and most especially that which passes informal channels – is delivered directly into the pockets of the inhabitants of some of the least developed rural areas in Africa, Asia and Latin America. Indeed it is precisely those regions in which the pace of economic development has hitherto been sluggish which have generated disproportionately large outflows of transnational labour migrants.

Labour migration is now a global phenomenon: not only are cities in all parts of the globe drawing in additional labour power on an unprecedented scale, but there are now few communities anywhere in the world – no matter how remotely located – whose members do not tap into migratory networks of one form or another. Moreover a focus on the dynamics of those networks themselves soon reveals that the links between poverty and migration are far more complex than has hitherto been appreciated. From a historical perspective it is quite clear that few long-distance migrants ever saw themselves as being engaged in a one-way 'flight from poverty': on the contrary the trans-local linkages generated by migratory movements were invariably much more circular in character (Piore 1979). Hence whilst migration may indeed be caused by poverty, it is simultaneously an active – and very often a very successful – remedy to that very condition, thanks above all to the reverse transfers in the form of remittances to which such population outflows invariably give rise. Moreover as high-speed and low cost air travel has replaced slow that in slow-moving steamships, and a telecommunications revolution has bridged hitherto yawning transnational spaces, making the most of these circulatory opportunities has never been easier. From this perspective it is not only immediately apparent that migration and economic advancement have always been two sides of the same coin, but that remittances and the prospect of raising levels of economic prosperity for their kinsfolk 'back home' have always been a significant part of most long-distance labour migrants' agendas. Indeed it is precisely because of the strength of the kinship networks in which they are embedded, together with the speed and sophistication of the current global communications networks that contemporary long-distance labour migrants, and especially those drawn from rural areas in the non-European world, have a particularly ardent commitment not just to personal wealth-creation, but to economic development in its fullest sense.

1.1 The Migrants' perspective

Few such migrants view the world in individualistic terms: instead they invariably see themselves as members of, and hence contributors to, a corporate family unit. Hence it is not so much on their own account but on behalf of their families that most set off on their travels, and the object of the exercise is consequently not so much personal advancement, but rather to improve the material prospects of their entire kindred, so enabling the group as a whole to invest in a better future. Hence labour migrants most usual stance once they reach their destination is deferral of gratification, so enabling them to remit a substantial part of their hard-won earnings back home.

Given their relatively poverty-stricken origins, there is a widespread assumption that such behaviour is primarily driven by an urge to meet their families' basic subsistence needs. Nothing could be more mistaken. The overwhelming majority of labour migrants set their sights a great deal higher, most especially when they have succeeded – often at great expense – in penetrating a section of the metropolitan labour market where wages are an untold multiple of those available at home. In these circumstances remittance flows are typically used to finance the construction of a fine new house for the entire extended family, to educate their own and their siblings' children in the expectation of radically improving their employment prospects, to purchase more land and better agricultural machinery, or to finance a local business enterprise of some sort. In other words remittance driven expenditure is invariably much more strongly investment- than subsistence-oriented.

If labour migrants are consequently much better viewed as active entrepreneurs than as helpless victims, and if it is further acknowledged that the scope for such entrepreneurial initiatives is particularly large in the case of those migrants who manage to break their way into metropolitan labour markets, the collective consequences of their efforts are now plain to see. They are generating a huge transfer of capital resources – whose total scale is clearly substantially larger than the already-enormous figures cited by Rathore – the greater part of which passes straight into the pockets of some of the most severely disadvantaged sections of the world's population. The potential for economic transformation to which transfers give rise can only be described as being as positive as it is immense.

1.2 Changing money

Nevertheless making the most of that potential is proving to be far from easy: if the arrival of migrant remittances simply precipitates a boom in the service sector which undermines the local economy's already all too limited productive base, the resultant islands of apparent affluence may in fact find themselves locked ever more comprehensively into positions of dependency. But as I have sought to show at some length elsewhere (Ballard 2003, 2004) this all too commonplace outcome is not so much the result of insufficient entrepreneurial effort on the part of migrants and their families, rather because of a yet deeper paradox. As migrants regularly discover, the obstacles in the way successful entrepreneurial initiatives they encounter back in their home base tend to be far more serious those they faced during the course of their adventures on nominally far more hostile territory overseas. Hence this Chapter focuses on one of the most pressing challenges with which transnational labour migrants currently find themselves confronted: how to transfer their savings back home without losing a disproportionate slice of their value in transmission costs.

As every traveller knows, switching small sums of cash from one currency to another is an expensive business: every transaction leads to a significant portion of the underlying value being sliced off in commission charges. Labour migrants face yet more serious difficulties, since they often have no alternative but send their remittances home unaccompanied. In these circumstances a commission of 10% even for payments into a bank account is unexceptional, and the figure can rise to double that if the destination is sufficiently remote. As a result all migrant workers share a common priority: to find some means of getting their savings back home swiftly and reliably, but in such a way as to avoid the exorbitant commissions charged by established formal money-transmission agencies. The result is wholly predictable. Wherever migrant workers of similar origins gather together on a sufficient scale to be able to create an ethnic colony, one of their first collective actions is invariably to construct an alternative – and necessarily informal – value transmission system by means of which to remit their savings back home.

2 The role of hawala in the transfer of remittances from UK to South Asia

2.1 The emergence of the hawala system

South Asian settlers in Britain are no exception to this pattern, and given that they and their descendants are now more than two million strong, they have by now constructed some highly sophisticated means of achieving these ends. Nevertheless current forms of IVTS – of which the highly sophisticated Hawala system is currently the most widely used – took some considerable time to construct. When pioneer settlers began to establish themselves in the UK over half a century ago, they had little alternative but to use International Postal Orders to send money home. But once mass migration took off during the 1960s, the authorities in both India and Pakistan directed their then still-nationalised banks to take advantage of this new commercial opportunity by opening branches in those areas from which labour migrants had been recruited in particularly large numbers. In the event, however, the success of this initiative was extremely mixed. Whilst the banks certainly drew large sums into savings accounts, especially since interest rates comfortably exceeded those available in the Post Office, much less success was achieved in the remittance market. From their customers' perspective it was easy to see why. Besides their high levels of commission and slow speed of delivery, the process of extracting the cash once it had arrived could be as difficult as it was humiliating if the recipient was illiterate; by contrast informal systems were a great deal more user-friendly.

As far as its customers were concerned the *hawala* system worked extremely smoothly. Cash was deposited with a *hawaladar* – initially a local shopkeeper, but as the system grew steadily larger and more sophisticated, most usually a specialist travel agent – and the rest was easy. Within a matter of days (and often hours as communications systems became steadily more sophisticated) the cash was delivered in person to the consignee, no matter how remote his or her village might be. Delivery was swift, often made in person, and safety absolute. Better still the sterling/rupee conversion rate offered by hawaladars was invariably higher – often by substantial margin – than that available through the formal banking system. Unless formal receipts were required, as for example when migrants needed to demonstrate that they had been providing financial support for their wives and children in order to obtain entry visas to enable them to reunite their families in the UK, hawala rapidly became the preferred medium of value transmission.

Nevertheless as the number of UK-based settlers and hence the volume of transactions grew apace, competition between the formal and informal systems grew steadily more intense. Even so *hawaladars* invariably had the edge, especially when either the Indian or the Pakistani rupee was in trouble, since they could then offer conversion at the unofficial rather than the official rate of exchange, rendering their swift and low-cost service yet more attractive still. By the turn of the millennium this form of IVTS was big business. Not only did virtually every Pakistani travel agency in the UK offer *hawala* alongside ticketing services, but such was the scale of the differential between the official and unofficial rate of exchange that the virtually all remittances were routinely channelled through the hawala system. But whilst fieldwork revealed the far-reaching economic impact which the arrival of migrant remittances had had in the rural areas from which mass migration to the UK had taken place, and whilst the managers of formally constituted banks serving these areas readily confirmed that hawala had become so popular that their forex business had dropped to virtually zero (Ballard 2003), it was much less clear as to exactly how the system of value transmission which ensured that pounds sterling from Bradford were transformed into Pakistani rupees ready for delivery in Mirpur actually worked. Although my ethnographic observations had enabled me to gain a shrewd estimation of the procedures which were likely to be involved, I found it quite impossible to gain any kind of concrete confirmation of how this was actually achieved. Despite my anthropological wiles, I had long since discovered that *hawaladars* were no more willing to lay out the details of their commercial operations than would the manager of my bank in the UK would be prepared to open all his accounts for public inspection.

2.2 Enter Customs and Excise

Then, quite unexpectedly, I had the benefit of a fortunate break. In January 2001 HM Customs and Excise announced that they had arrested a number of Hawaladars operating in Bradford, Birmingham and Halifax, and that they had been charged with laundering excess of £ 600 million through their businesses during the course of the preceding two years. Soon after the arrests had been made I was approached by solicitors acting for one of the arrested hawaladars, from whom I discovered that the prosecution case was as straightforward as it was vague, namely that 'sensibly … such large amounts of cash must have been the proceeds of crime, and a large proportion of it must have been from drug smuggling'. Given that I was broadly familiar with the how the hawala system operated, and also that I indicated that the inference that Customs had drawn was by no means necessarily so 'sensible' as the prosecution appeared to believe, I was instructed to act as an expert witness for the defence. Moreover having been so instructed I was promptly given access to all the evidence on which the prosecution intended to rely once the case came to trial, the greater part of which consisted of voluminous records of all the hawaladars' transactions, right down to the level of individual recipients and their villages of origin.

Some months later, by when I had been briefed to prepare reports in four parallel cases, I realised that I was in a position to kill at least two birds with one stone. Over and above my legal duties, which was to offer expert opinion as to how far the available evidence supported the prosecution's contention that each of these hawala operations was merely a carefully constructed front behind which four massive money-laundering operations had conveniently been concealed, I realised I had also been presented with a wholly unprecedented academic opportunity: the production of a detailed and empirically grounded analysis of the day to day operation of the Anglo-South Asian dimension of the contemporary global hawala system.

2.3 The specific dimensions of my window of opportunity

Academic research in the social sciences is very often strongly opportunistic in character: lacking the resources to command the production of data, let alone to require respondents to provide answers to intrusive questions, researchers have little alternative but to make the most of every available opportunity. All such opportunities bring with them their own intrinsic limitations. Hence whilst the opportunity to explore the everyday operation of remittance-driven hawala was – so far as I am aware – quite unprecedented, the perspective to which was thereby opened up was by definition highly specific in character. Firstly there is the issue of criminality: to what extent is it reasonable to assume that the records which I examined were accurate, given the prospect that the whole edifice was no more than a pack of lies which has been carefully constructed to obfuscate criminal activities? Whilst my own judgement suggests that this was not the case – for reasons which I will set out more explicitly as and when appropriate – it is ultimately for my readers to make their own decisions about the coherence and plausibility of the analysis presented here.

Secondly, and more seriously, it is also worth stressing the data to which I thereby gained access also had serious analytical limitations – no matter regardless of its trustworthiness. Hence even though the opportunity to inspect detailed records of a huge mass of hawala transactions originating in Bradford and Birmingham and giving rise to deliveries to specific recipients in villages and towns across the length and breadth of Indian and Pakistani Punjab provided me with an unprecedented opportunity to explore the detailed character of a large number of individual transactions, as well as the localised processes of consolidation and deconsolidation which took place at both ends of the chain, it soon became clear that this bottom-up perspective could only produce the broadest of pointers as to the way in which the system as a whole operates when viewed from a more global perspective. Nevertheless access to those pointers was crucial. Not only did they confirm my initial suspicion that contemporary hawala is an extremely complex operation whose logic can only be grasped when understood as a systematic whole, but they also provided a clear indication of the precise directions in which I should look for additional material with which to illuminate that logic.

Hence whilst the UK data to which I was so fortunate to gain access provide the core of this paper's empirical foundations, my analysis is by no means limited to the retail transactions which the bulk of this data so minutely describes. Rather I have taken the opportunity to build upwards and outwards from those foundations, drawing material from elsewhere as and when available, in an effort to make sense of the *structural* character of the contemporary global hawala system. This has also enabled me both to critique and to develop the relatively simplistic representations of how IVTS works which appear in the existing literature.

2.4 The systematic dynamics of hawala: consolidation, de-consolidation and settlement

As the vast bulk of the currently available literature quite correctly indicates, Hawala is in essence a system of swaps. But whilst very largely organised on a word-of-mouth basis with a minimum of back-office support, the swaps themselves are of a kind entirely familiar to the staff of the Forex department in any international bank. When different branches of a given bank operate in different currency zones, it follows that if branch A trading in local currency *a* can contrive to match local depositors' remittances in currency *a* with a similarly sized set of payments out to local recipients, also in currency *a,* with a parallel set of payments, both out and in, denominated in currency *b* in some distant branch of the bank operating B, the necessarily costly process of cross-currency settlements can be entirely avoided, thereby maximising group profits. However forex operations in the real world are invariably far more complex. To be sure the global sum of all foreign exchange transactions must by definition be zero. But given that the number of deals struck on a daily basis in the world at large is huge, and that such deals are struck in a multiplicity of currencies in a multiplicity of jurisdictions and as between a multiplicity of traders, the prospect the books of any one institution will balance out at the end of the day is remote in the extreme, no matter how vast its global reach may be. Hence forex accounts can only be balanced through a complex – and necessarily expensive – processes of consolidation and settlement in major money markets such as London and New York. Indeed it is precisely because of the complexity of such processes that small forex transactions – or in other words those of less than $100,000 or so – attract such significant percentage transaction costs.

The universe within which contemporary remittance-driven hawala operates is constituted in just the same way as that constructed by the formal banking sector. Moreover since the vast majority of remittance transactions are small – usually somewhere in the $500 - $5,000 range – it must of necessity find some way of supporting processes of consolidation and settlement whose structural character is identical with, but frequently even more complex than, those implemented within and amongst formally constituted international banks. To be sure the two kinds of operation could not look more different from the customers' perspective. Hawaladars do not operate from within expensive marble-clad banking halls: theirs are at best store-front operations, whose facilities can be accessed through a multiplicity of agents and sub-agents, most of whom provide hawala facilities as a side-business in local grocery stores or a travel agency. The bureaucratic content of each transaction is minimal, not least because the Hawaladar and his customers are normally members of the same small ethnic colony, and hence already know and trust each other. Once the sterling cost of the required sum in rupees has been agreed upon the transaction can be completed very swiftly. The customer hands over his payment – invariably in cash – to the hawaladar, to whom he also supplies the name, the address, and relevant personal details of the recipient to whom the rupees are to be delivered. The funds so purchased are normally available at the nominated destination within 48 hours, and may either be delivered directly to the recipient, or failing that be available for collection at the office of a nearby distributing hawaladar. The remoteness of the recipient's place of residence is immaterial: the system is deliberately organised in such a way as to facilitate the delivery of remittances to the specific villages and hamlets from which members of any given local settlement are drawn.

From its users' point of view hawala has everything to recommend it. The process is simple and straightforward, and senders hand over their hard-earned cash to a well-known local figure in whom they not only have confidence, but who would be honour bound to respond to their complaints if anything went wrong. Not that they have any expectation that problems will occur: funds sent informally are delivered much more swiftly and reliably than those sent through formal channels. Better still the exchange rate offered by Hawaladars is often substantially greater (sometimes by as much as 20%) than the 'official' rate, and commission rate – if charged at all – is rarely greater than 1%. In these circumstances there is simply no contest between the hawaladars and the services offered by organisations such as MoneyGram or Western Union, whose commission for transferring funds to remote destinations can attract commissions of as much as 15%.

Yet on just what basis do hawaladars manage to achieve such a striking level of competitive advantage? The answer – as I soon discovered once I gained access to their records – was threefold. In the first place the hawala system uses exactly the same procedures of wholesale consolidation and settlement as those deployed in the formal banking sector. Secondly, and just as significantly, the system dramatically reduces the heavy overheads normally associated with the implementation of consolidation and settlement procedures by restricting their formal record keeping solely to that required to ensure the accurate completion of each and every deal between individual hawaladars – but not of the further deals in which other hawaladars further up and down the chain will also by definition be involved. Thirdly and most crucially, the principal guarantor of system security is grounded not so much in elaborate and expensive bureaucratic procedures, but rather in the relationships of absolute personal trust which all players in the hawala market maintain between themselves. Taken together, these principles have far reaching commercial consequences. Since every individual hawaladar in this distributed system can safely cut his back-office procedures to the bone, multiple transactions can be accurately processed at levels of operational efficiency which the formal sector cannot begin to hope to match.

Despite the substantial differences between hawaladars' operating conventions and those deployed within the formal banking sector, it certainly does not follow that they routinely operate outwith the formal sector. Quite the contrary: once hawaladars had used these informal procedures to consolidate a multitude of small transactions into tranches of a suitable size for settlement swaps, they had no hesitation about implementing deals at this level – most usually with other physically distant hawaladars – through the super-secure SWIFT global inter-bank value-transmission system. In other words whilst hawala operators readily consolidate and de-consolidate in terms of physical currency notes whenever it is to their commercial advantage to do so, they have no hesitation about switching to wire transfer (or in other words the resources of the formal system) whenever that ceases to be the case – as for example with large-scale long-distance value transfers. There is nothing mysterious about these strategic choices: they simply reflect hawaladars' careful exploitation of every available opportunity to cut costs.

Whilst this certainly means that hawaladars abjure all unnecessary record-keeping, it certainly does not follow that they keep no records. Given that the core function of remittance-driven hawala systems is to implement the swift and reliable completion of a large number of individual transfers to distant and highly specific destinations, and that the ultimate execution of these value transfers necessarily gives rise to the accurate implementation of large and complex processes consolidation and settlement on a daily basis, detailed record-keeping is essential. In its absence clients' funds would rapidly go astray and the system would collapse. Indeed the more closely I examined the hawaladars' paperwork, the more impressed I became by the simultaneous frugality and efficiency of their approach to record keeping: all material which was not immediately germane to the matter in hand was normally rigorously discarded. To be sure frugality might cause great frustration to an accountant trained to conduct audit trails through systems which deploy a far more luxuriant approach to data recording. However once I began to get to grip with the logic of hawaladars' procedures, and hence to understand how I could trace through the details of their operations, I became increasingly impressed by the scale, the sophistication, the global reach and above sheer efficiency of the system which they had created.

This last point also turned out to be crucial: indeed taking a *systematic* view of what was going on proved to be the key to understanding of what hawala is all about. At one level each hawaladar operates a free-standing business: hence profits arise, just as in any other business, as a result of each hawaladar maintaining a positive balance as between his incomings and outgoings. However hawaladars are in no way responsible for each others' profitability. Quite the contrary. Hawaladars are in constant competition with one another, and if any given hawaladar fails to fulfil any deal he has struck with his fellow operators, he will promptly be dropped from the game. But despite this condition of vigorous competition between individual hawaladars, and the ruthlessness with which sanctions for non-compliance are applied, the financial arena which hawaladars construct around themselves is the very antithesis of a Hobbesian war of all against all. Quite the contrary. In a manner which will doubtless be deeply puzzling to most Western observers, the secret of Hawala's success lies in its operators' successful construction of a globally extended but comprehensively distributed system of self-regulating reciprocities, and whose system-security is grounded in the networks of absolute trust which hawaladars at all levels so carefully maintain as the very foundation of their business.

From that perspective any given hawaladar's operation is anything but autonomous: rather it is little more than a specific local node of a huge self-regulating transnational network, membership of which permits that operator to cut deals with other distant hawaladars, and thus to turn a profit. In the context of such a distributed system that any given operator's horizon of knowledge will tend to be extremely limited, for the only prerequisite for doing business is that he can have absolute trust in all the partners with whom he makes deals. Details of the deals his partners make, let alone those of his partners' partners, are no concern of his. As I gradually began to realise it is only by tapping into the system from an alternative perspective, most especially by opening a window which provides a perspective from the top down to complement the local hawaladar's view from the bottom up, that one can begin to appreciate the logic of the system as a whole. But to reach that goal we must start at the other end of the scale by making a step by step examination of each of the hawala system's component parts.

3 Hawala in practice

3.1 Retail (remittance) hawaladars in the UK

In what has now become a remittance-driven system, the activities of the retail hawaladars provide a natural starting point for any such analysis. It is they who provide over-the-counter remittance facilities to members of local ethnic colonies, and in that context hawala transactions appear to be extremely straightforward. Having negotiated a price in pounds sterling for the sum in rupees which his customer requires, the hawaladar notes the name of the sender, the name and address of the recipient, and of the sum to be delivered. Then sends a daily fax listing all these details through to his distributing partner in the subcontinent, and the promised cash deliveries will be duly made.

But having set out the basic principles, actual practice is a great deal more complex. It is easy to see why. Such a small-scale retailer might well deal with ten customers in the course of a day; but for such a small-scale operator to seek to implement the complex transactions required to complete these would make no sense whatsoever: hence retail hawaladars routinely act as agents, if not sub-agents, for much larger wholesale hawaladars operating at a higher level in the network. Hence every local retail hawaladar is in regular contact with a much larger wholesale operator; and it is to such regional wholesalers, rather than to partners in South Asia, that each retailer faxes off his daily list of delivery instructions.

3.2 The role of the wholesale (consolidating) hawaladar

As I soon realised when I examined their records, all the hawaladars whose books I had an opportunity to examine were major wholesale operators. With offices located in the heart of very substantial South Asian ethnic colonies in cities such as Birmingham and Bradford, most also offered retail services to walk-in customers, but nevertheless the bulk of their business was passed up to them from extensive networks of agents and sub-agents located in South Asian ethnic colonies spread out across the length and breadth of the UK. In this respect such major wholesalers are best understood as *consolidators*: besides sending daily notifications of the going exchange rate to their agents and sub-agents, they draw in retail customers' instructions about rupee deliveries, as well as their cash deposits, for central processing. This made sense. Thanks to the complex network of agencies and sub-agencies which each such hawaladar maintained, wholesalers were in a position to combine a huge mass of delivery instructions from individual retail customers into a much smaller number of consolidated tranches, each of which could be faxed off *en bloc* delivery hawaladars located in specific locations in India and Pakistan from which there had been a heavy migrant outflow; and as I had already guessed – and as the records confirmed – when delivery hawaladars received a faxed tranche of instructions they promptly deconsolidated them into a multiplicity of component parts which were in turn handled by their own networks of delivery agents and sub-agents. Indeed as I subsequently observed, the presence of agents and sub-agents is a salient feature of every dimension of the hawala system – no matter whether its primary concern is with collection or with distribution, or whether its scope is narrowly parochial or comprehensively global.

Consolidation is the key to the operating efficiency of the hawala system. With such structures in place, wholesalers in Bradford or Birmingham are in a position to consolidate a whole tranche of instructions about rupee deliveries sent into them by their agents and sub-agents located all over the UK on a daily basis, ready for onward transmission by fax or email to their distributing counterparts in Mirpur, Gujjar Khan, Jhelum, Kharrian and so forth, each of whom will promptly de-consolidate these incoming instructions for onward distribution to their own local network of village-level agents and sub-agents. Cash is treated in just the same way: rather paying funds received from walk-in customers straight into a bank account, the vast majority of retail hawaladars bundle up their cash receipts before sending them on – usually on a weekly basis – to the wholesaler, who is consequently in a position to deposit the funds in very much larger consolidated tranches.

Yet although the resultant processes of bundling, unbundling and rebundling a constant flow both of cash and of rupee delivery instructions were intrinsically time-consuming, and hence were a major component of every wholesaler's daily activities, they only make up half the underlying hawala operation. Whilst it is easy enough for a hawaladar at any level in the system to fax instructions to delivery partner in South Asia, those partners can only implement the instructions which they receive if the sender can also arrange to provide his partners with the wherewithal in cash to enable them to do so. As I very soon discovered, whilst the sending of delivery instructions to overseas hawaladars and providing them with the cash with which to make those deliveries are necessarily complementary activities, in this case the processes whereby this necessary marriage was achieved were invariably implemented along two quite separate channels. Whilst settlement is indeed a key component of the whole process of hawala, it is nevertheless worth noting that the models of how this is achieved which are set out in the current literature (as for example in El Qorchi et al, 2003: 6 - 9) are hugely over-simplified. Although useful as a basic introduction, if left undeveloped they do more to obscure than to illuminate the extremely complex series of transactions which underpin the contemporary system of globally-oriented hawala.

The source of these complexities is not hard to detect. Given that the contemporary hawala systems is so strongly remittance driven, the simple bilateral swaps between HA and HB of the kind which El Qorchi envisages in his model scarcely ever occur. In the relatively remote rural areas from which the great majority of contemporary unskilled labour migrants (and hence likely hawala customers) are drawn, local money markets – to the extent that they exist – are already flooded with hard currency, since many visitors from overseas bring emergency top-up funds with them in cash; hence there is no way in which delivery hawaladars can find a sufficient number of local customers wishing to sell rupees in exchange for hard currency deliveries which they could readily be made from the deposits piling up in their sending counterparts' bank accounts in Bradford and Birmingham. To be sure there are all sorts of money markets in which there are large numbers of purchasers who are only too eager to exchange their soft rupees for harder currency, but these markets are located in far-away cities such as Karachi, Bombay, Kabul and Dubai, and in any event the unit of exchange in such markets is not sterling but US dollars.

The reasons for the bifurcation between the transmission of delivery instructions on the one hand, and the delivery of the cash with which to make those deliveries on the other should now be clear: the settlement processes which permit the implementation of the central dynamic of the whole operation – namely the delivery of huge volumes of cash to the inhabitants of remote rural areas – are of necessity immensely more complex than the current literature suggests. Hence just as we followed through the processing of delivery instructions step by step, so we must do the same with the cash.

3.3 Hawaladars' use of the formal banking sector

The complexity of these processes immediately came into focus once I began to explore just how UK based wholesale hawaladars dealt with their cash receipts. Although this included a mass of small sums which they received from their own over-the counter customers, by far the greatest part of the flow of cash which they processed was either passed up to them by their agents and sub-agents, or was passed on to them in even more substantial tranches by semi-independent wholesalers who tapped into their capacity to provide an overseas transmission service in US dollars. At this wholesale level sums involved were invariably large: even in slack periods cash deliveries totalled several hundred thousand pounds a week, and frequently rose to well over a million in busy periods – all of which was paid straight into holding account in a local high street bank. But here, too, hawaladars also made careful use of economies of scale. As I soon discovered, banks impose charges for cash deposits on a commercial scale, that rises steeply if currency notes are delivered unsorted; but by sorting, counting, packing and delivering currency notes to the bank's precise specifications, hawaladars found they could negotiate a substantially lower commission. Having made the necessary arrangements for physical delivery either with Securicor and Brinks, they all promptly took advantage of that facility.

Not that they left those funds, once delivered, lying idle for very long. As a further crucial component of their business they also negotiated a further arrangement with their banks: the capacity to give instructions to make spot purchases of US dollars on the London money market through their bank's own dealing room. As a result hawaladar was in a position to use the funds deposited in his sterling denominated holding account to make wholesale purchases of US dollars on the basis of a single fax-confirmed telephone call. However what was also very striking that hawaladars transformed their sterling deposits into much more internationally negotiable US dollars on a daily basis, they rarely, if ever, transferred the funds they had acquired directly to Karachi or Bombay. Instead the greater part of their dollar purchases were sent straight to accounts in New York, and of these close to three-quarters of those transfers were placed in accounts maintained by a small number of Dubai-based Exchange Houses at the New York headquarters of either the Bank of America or failing that the Midland Marine. These transfers to Exchange House accounts also displayed a further distinctive characteristic: the hawaladars' bank statements showed that the great majority were either for precisely \$100,000, whilst the remainder checked in at precisely two or three – and very occasionally at four or five – times that figure. But whilst these very large wholesale transfers accounted for well over half of the volume of the transfers by value, they were also accompanied by a much larger number of smaller and more irregularly sized transfers – usually ranging between \$10,000 and \$50,000 to a huge array of accounts held both by named individuals and by commercial enterprises in formally constituted on-shore Banks scattered through Europe, North America, the Gulf and East Asia – although rarely, if ever, in South Asia itself.

One point was by now quite plain: this arm of the remittance driven arm of the Hawala system routinely used the formal banking system for the onward transmission of migrants' now consolidated remittances. Moreover there could be no doubt about the purpose of this process of onward value transmission: it must, by definition be part of a settlement process. Even so it left a substantial mystery hanging in the air, since there could be no understanding as to how the circle of settlement was finally closed without a much more specific understanding of how an outflow of US dollars from Bradford gave rise to a parallel inflow of rupees to a series of rural distribution centres in northern Pakistan.

On the face of it very little evidence with which to answer this question was immediately available. Although the scale of these operations was large – the hawaladars' records to which I had access recorded transfers totalling around $ 600 million in the course of two years – the available documentation did not indicate the basis on which any of these payments had been made, and in the case of payments into the Exchange Houses' accounts gave no indications as to who the ultimate beneficiaries of these transfers might be. To be sure these value transfers took place swiftly and expeditiously; but the hawaladars who set them up could offer very little in the way of detailed explanation as to what these transfers were all about. Such matters were beyond their knowledge-horizon. All that they could do was to confirm that all these payments had come about as a result of hawala deals which they had made with brokers operating on behalf of one or other of the Dubai-based Exchange houses, and through which they negotiated the purchase of rupees to be delivered to their instructions in Northern Pakistan against a payment in US dollars transmitted by TT to the broker's instructions.

But before we go on to explore the mysteries of global hawala – which will only become possible once we have moved to a position from which we can take more of a top-down – as opposed to a bottom-up – perspective on the hawala system, and from where we be can bring these mysteries more clearly into focus, two further local complexities must also be noted. Firstly UK-based wholesale hawaladars can conveniently be divided into two broad categories. Of those functioning at this level a relatively small number of operators can best be described as having gained the status of full-function wholesalers: as such they hade direct access to foreign exchange facilities through their local bank, together with the capacity to use the bank's TT facilities to transfer dollars purchased in the spot market to overseas destinations of their choice by means of a single, simple, faxed instruction.[1] Meanwhile a substantially larger number of operators whom we can perhaps best describe aspirant (as opposed to full-function) wholesalers conducted all aspects of the consolidation and delivery process – with the sole exception the final stage of converting their customers' sterling deposits into US dollars – on an 'in house' basis, before turning to their full-function counterparts for assistance in completing the final overseas component of the transaction. Hence aspirant operators regularly made bulk deliveries in cash to the full-function wholesalers, who in turn took responsibility – in return for a small fee – for its conversion into US dollars for onward transmission by TT to overseas recipients.

All this was further overlaid by a second source of complexity, since it soon became clear that by no means all the deals which UK-hawaladars completed were initiated as a result of them contacting Dubai-based brokers to negotiate a deal for the purchase of rupees for local delivery in South Asia against US dollar transfers TT financed by their own in-house resources. As my hawaladar contacts readily indicated, in addition to the hawala business which they themselves initiated, they were also frequently approached by the Dubai-based

[1] All the South Asian hawaladars whose records I have been able to inspect as a result of their arrest on money laundering charges fell into this category; at the time at which their arrests took place, I would estimate that there were perhaps a further fifteen full-function wholesale hawaladars serving the Indo-Pakistani remittance market in the UK.

brokers from whom they purchased rupees, but who were in this case interested in making use of the wholesale hawaladars' foreign exchange facilities as a means of converting sterling into dollars. Hence they were in regular receipt of phone calls from Dubai seeking quotations for the conversion of a large tranches of sterling (which would be delivered in cash) into US dollars, to be forwarded overseas by TT to the brokers' instructions. These Dubai-based brokers were clearly fishing in a highly competitive market, since the deal would be closed with whichever hawaladar responded to the broker's offer with the most competitive bid. Once such a deal had been closed a cash delivery would arrive, which the selected hawaladar would then count, bank, convert into dollars and transmit overseas as directed.

3.4 The role of global (settlement) hawaladars

Having examined all the arrested hawaladars' records and bank accounts, and having quizzed them at some lengths about the precise ways in which they had gone about their business, it was by now quite clear that although they were involved in some exceedingly complex processes of consolidation and settlement through which very large sums of money were speedily and efficiently processed, from the perspective of those engaged in implementing these processes in the UK the logic of the global hawala system – and most particularly of the settlement deals which quite clearly lay at its heart – was quite literally 'over the horizon'. But although they consequently did not know exactly how the system, qua system, actually worked, they could readily indicate just where those unknown processes were actually worked out: in a small number of Dubai-based Exchange houses[2] with whose agents the UK-based hawaladars regularly struck their hawala deals. However in striking those deals the central concern of UK-based hawaladars was simply to get the best available conversion rate: and like all other transactions within the system, those deals were closely haggled. But precisely because hawala is a distributed rather than a centralised system, it followed that all and any questions about just how these brokers – and the Exchange houses which clearly stood behind them – actually went about obtaining the funds they delivered, or to whom they passed them on, was no concern of theirs. In a system based on absolute trust the details of such transactions – which in any event were implemented in far distant lands – were of no account whatsoever. The key to hawala is that partners (or in other words those who have stuck a deal) fulfil their obligations promptly and to the letter: all other considerations – with the exception of those which have a bearing on one's partner's reputation for trustworthiness – are regarded as entirely immaterial.

Having got this far it was quite clear that I still had a great deal more to learn. As I rapidly began to appreciate, the deals facilitated within and between the Exchange Houses of Dubai facilitate – and which could only be viewed from afar from the perspective of wholesale hawaladars operating in Bradford and Birmingham – lie at the very core of the contemporary hawala system. Given the huge levels of liquidity generated by their role in the transmission and delivery of migrant remittances on a global scale, together with the scale, sophistication and complexity of the settlement processes which the system is able to implement, I began to discern just why it is that hawala enjoys a position of such massive competitive advantage in comparison with the formal banking sector. However neither the Exchange Houses nor their role in the hawala system find any mention in the current literature. Hence their role and activities are worth discussing in some detail.

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[2] Those with UK-based hawaladars routinely dealt included Federal Exchange, Multinet Exchange, Sajwani Express, Wall Street Exchange and Worldlink Exchange. All are formally registered LLCs, and their central head offices are all within very easy walking distance of each other in the Deira business district of Dubai.

4 The emergence of Dubai as a lynch-pin in the contemporary hawala system

4.1 Trade and commercial banking in the Indian Ocean region

Hawala (literally an exchange of debt) has ancient historical roots in the banking networks which grew up to provide financial services to the long-distance traders who began to do business across the length and breadth of the Indian Ocean region more than four millennia ago, and which had reached an extremely high level of sophistication during the seventeenth and eighteenth centuries, during which European traders found they had little alternative but to rely on their services (McPherson 1993). But although partially eclipsed by the military successes of European colonial powers – and by the formally constituted banking institutions which swiftly followed in their wake – during the period which immediately followed, the ancient trading networks of which hawala always remained an integral part gained a new lease of life during the latter part of the twentieth century, and seem likely to become steadily more salient as we move into the twenty first.

This resurgence in activity has many causes, of which four appear to be particularly salient. First the very rapid – and continuing – growth in migrant remittances, the bulk of which currently flow out of Euro-America's highly developed urban-industrial centres and into economically marginalised but heavily populated regions throughout South, East and South-East Asia. A second major spur to the resurgence of hawala, and indeed to the growth of the informal economy in general, has been over-zealous attempts by many post-colonial states to manage their national economies on the basis of centrally controlled edicts, including amongst other things strict controls on both foreign trade and foreign exchange. As a result the open market value of their currencies frequently stands at a substantial discount to its 'official' value. Thirdly the contradictions which have emerged as the rapid growth of manufacturing capacity in many parts of the region has encountered the restrictions imposed by central planning, leading to a massive recourse to the informal sector as the only way of facilitating otherwise illegitimate local and inter-regional commercial transactions; and last but not least Dubai's recent success in riding the oil boom in such a way that it is has managed to replace the more ancient commercial hubs of the western Indian Ocean such as Basra, Hormuz and Bombay to become the region's leading offshore financial and trading entrepôt.

4.2 The emergence of Dubai as a commercial hub

To appreciate just how and why this occurred it is worth listing some of the more obvious reasons for Dubai's success. In addition to enjoying the benefits of substantial reserves of oil and a tiny indigenous population – a common enough phenomenon in the region – the Emirate was also centred around a vital strategic asset: a navigable creek close to the mouth of the Persian Gulf. In considering how the most might be made of its resources, Dubai's commercially-astute ruling family soon realised that it would be extremely short-sighted to rely solely on the necessarily limited supplies of oil which lay buried beneath its soil. Hence right from the beginning of the oil-boom, great efforts were made to reinforce the creek's nascent position as a commercial hub. Those efforts soon bore spectacular fruit.

Whilst the escalation in the price of oil during the 1970's brought unprecedented levels of prosperity to much of the Middle East, the absence of a local labour force to build and maintain the explosively expanding physical infrastructure which began to be constructed throughout the whole region generated an ever-rising inflow of migrant workers – a large proportion of whom were recruited from South Asia. However there was one very important respect in which Dubai differed from its immediate neighbours: the extent to which its ruling family actively encouraged (and indeed participated in) all manner of commercial activity. That policy has proved most successful. Taking advantage of its favourable geographical location, Dubai has emerged as the central hub in a regional system of commercial, communications, financial and trading networks, so much so that it has become the preferred entrepôt for all manner of linkages with the wider global economy. Hawala is no exception to this pattern.

That Dubai should have emerged as the lynch-pin of the contemporary global hawala system should come as no surprise. Long-distance traders have been moving back and forth along well-worn paths between the Red Sea, the Gulf, South Asia and the South East Asian archipelagos for well over two millennia, during the course of which a sophisticated banking system – at the core of which was the capacity to facilitate financial settlements between widely separated markets – gradually emerged. When European traders first broke into this arena they had little alternative but to do business with local hawaladars: that was the only basis on both local and inter-regional trade could be financed. But as Imperial hegemony became ever more firmly established as the nineteenth century progressed, indigenous bankers were swept steadily to one side as the much more bureaucratically organised European banks favoured by colonial regimes came to dominate every major commercial and financial market place. But despite their consequent marginalisation, hawala networks were certainly not eliminated: there was still a strong demand for their services from a huge network of so-called 'country traders' who operated beyond the European financial frontier. Such traders' networks were far from parochial: stretching over long distances, no less by sea than by land, they were frequently the principal lifeline of economic activity into and out of the rural areas which they served. These anciently rooted networks which had only been placed temporarily in abeyance provided a ready-made foundation for further developments in the post-colonial world.

As a result of the tripling of the price of oil in the early 1970s, migration to the Gulf region took off explosively during the decade that followed. Since a high proportion of the unskilled labour migrants drawn into the Gulf during this period were recruited from economically peripheral regions in South Asia, their arrival was soon followed by an equally explosive growth in the demand for services through which to transmit their savings back home – a niche which was promptly filled by a small number of Indian and Pakistani entrepreneurs based in Dubai. The broad outlines of the basis of the deals they began to construct are not difficult to discern. During the 1970s and 80s both India and Pakistan were facing severe economic difficulties, such that both governments introduced strict controls on access to foreign exchange, such that a substantial gulf soon opened up between the 'official' and the open-market value of both the Indian and the Pakistani rupee. At the same time the formal banking network in both countries was still very largely confined to the major towns and cities: not only were branches hardly to be found in the rural areas from which such a large proportion of migrants were drawn, but the rare branches equipped to receive wire transfers from overseas were only to be found in the very largest cities. Given the presence of an active market in which buyers so desperate to purchase hard currency that were only to willing to sell their rupees at a substantial discount, and an ever growing number of migrant workers who had been paid in dollars, dinars and dihrams seeking to switch their savings into rupees, the opportunities for hawala were self-evident: all that was needed was the construction of a settlement and distribution network so that the rupees so purchased from buyers of hard currency – the most active of whom were based in Karachi and Bombay – could be delivered to the rural areas from which the majority of labour migrants were drawn.

4.3 The growth of the Exchange Houses of Dubai

One of the earliest – and in the long term one of the most successful – entrepreneurs to enter this field was a newly arrived migrant from Udupi, a small town Karnatic coastline of Western India. Although trained as a Pharmacist, and initially employed by a pharmaceutical company which had opened up an office in Dubai, B. R. Shetty was in fact a member of the Chettiar caste, whose traditional specialisation was as bankers. No doubt drawing on well-established contacts within the community to which he belonged, Shetty developed a side-business in facilitating the transmission of remittances back to Karnataka and Kerala, from which migrant workers had arrived in large numbers. Although this was not his only business venture, for he also established a large and very successful chain of hospitals, his UAE Exchange also went from strength to strength as it built up a network of agents and sub-agents who fed in remittances from members of the many Malayali communities which had now begun to crystallise across the entire region. But although UAE may have been a pioneer in this field, many parallel operations soon began to emerge, each of which tended to provide a specialist services for a specific migrant community. Not only Exchange houses serving migrants from other parts of India, as well as from Pakistan, Bangladesh, Sri Lanka, Thailand, the Philippines, Indonesia and a whole host of other regions also begin to emerge, but each such Exchange house promptly established a network of agents and sub-agents to funnel in remittances from migrants settlements across the length and breadth of Saudi and the Gulf.

No doubt drawing on its status as one of the oldest and largest operators in this field, the UAE Exchange took a very significant step forward when it applied for access to, and was accepted as a member of the SWIFT system of global inter-bank electronic money transfers in the mid-1990's. Not only did this facility immediately enhance its capacity to complete transactions with banks in Karnataka and Kerala, which remained its business specialty, but it also boosted Dubai's role as a settlement centre for global hawala. This was further facilitated when the UAE Exchange set up a securely firewalled intranet between itself and most of the other Exchange Houses in Deira. Not only did this facilitate the completion of settlements as between the Exchange Houses themselves, but also enabled the other Exchange Houses to gain access to UAE's newly acquired SWIFT facilities. Although Dubai's Exchange houses may have had their origins in the informal sector, by the time the twenty-first century dawned it was manifestly inappropriate to identify them as such: by then not only had all of them become fully registered LLCs, but had become an integral component of the global banking system.

During the course of a brief visit to Dubai in the summer of 2003 I was able to make some first-hand observations. The date is significant, for in a post 9/11 context much had changed, at least at the level of appearances. Not only had the increasingly sophisticated web sites advertising their services which many of the Exchange Houses had begun to develop prior to the collapse of the twin towers long since been dismantled, but they all by now gave pride of place to Western Union posters in their store-front displays. However this appeared to be doing very little damage to their business: whilst a steady flow of off-the-street retail customers could be observed coming into each of the Exchange houses' offices, Western Union's office looked thoroughly forlorn: although my timetable was not such that I could engage in long-term surveillance, I did not observe a single customer entering its doors. Since then the Exchange houses appear to have had a further resurgence of confidence. In October article appeared in the Business section of *The Hindu*, indicating that thanks to tie-ups with a number of South Indian banks, UAE Exchange was processing an average of 80,000 remittance transfers a month. Yet more significantly still, all traces of the Western Union logo had disappeared from its website: the use of such wallpaper as protective cover was clearly no longer deemed to be necessary.

Yet even if there has been a resurgence of confidence amongst Dubai's Exchange Houses, even though several were forced out of business as a result of pressure from the US Treasury in the immediate aftermath of 9/11, it is worth noting that the story which I have set out so far has still not addressed the most pressing issue of all. Is the huge outflow of funds collectively processed by the Exchange Houses of Dubai no more than a set of one-way streets through which remittances are simply consolidated and delivered to distant destinations, or are they equally heavily engaged in processing similarly-sized settlement counter-flows?

5 Settlements and counter-flows

By definition, labour migrants' remittances flow one way: from the more developed to the less developed regions in the global socio-economic order. That is precisely why their development potential is so great. But by just the same token the consequences of their arrival is also multi-dimensional: besides delivering capital resources straight into the pockets of the hitherto capital-poor, remittances inflate the scale of the local economy by boosting its liquidity, and in doing so provide the wherewithal to meet the foreign-exchange costs of importing manufactured goods. To be sure many of these imports will often take the form of consumer goods, but the arrival of remittances will also provide their wherewith to purchase manufactured goods such as tractors, pumps, trucks and bulldozers, all of which can be expected to play a part in reinforcing local infrastructural resources, thereby boosting local levels of wealth and productivity. To be sure that potential is by no means always realised, and even if it is, the principal beneficiaries are by no means always migrant workers and their immediate families. What is undeniable, however, is that migrant remittances provide a welcome boost to the forex resources of each of the economies into which they are inserted. But just how does this insertion take place, and with just what consequences?

5.1 Hawala and the informal economy: current developments in Somalia and Afghanistan

No-where is the vitality of hawala more plainly visible, nor its value as an infrastructural resource more clearly highlighted than in those regions where incessant civil war has not only led to the effective collapse of the state, but also eroded the greater part of the local economy's productive base. Somalia and Afghanistan provide two current examples of regions which have fallen into that unfortunate position. Yet whilst formally constituted financial institutions have long since disappeared in both cases, in neither has economic activity ceased. Instead informal structures – in which hawala networks play a central role – have not only successfully shouldered the burden of oiling the wheels of their respective local economies, but also of integrating those 'failed' economies into global economic order. Moreover it is precisely because the hawala system is ultimately grounded in processes of settlement that their efforts have met with such success.

The Somali economy is now almost entirely remittance-driven. Its formal infra-structure, from agriculture onwards, has effectively disappeared, and it currently has no significant exports other than consignments of *quat*. Yet although all vestiges of central authority have long since been consumed by tribal conflict, local trading networks through which supplies of rice, fuel and consumer durables are distributed throughout the region are still very firmly in place. Moreover the driving force behind this vitality is plain to see: it is migrant remittances delivered through hawala networks which are now primarily responsible for keeping the entire the Somali economy afloat. Moreover it is hawala's capacity to implement forex settlement which is the key to its success in doing so. Not only do remittance payments delivered to recipients across the length and breadth of Somalia provide the region's inhabitants with the wherewithal to support themselves on a daily basis, but the counter-flows of value to which this inflow of liquidity gives rise enables importers in Mogadishu to use credits they consequently accumulate with the Exchange Houses in Dubai (who handle the forex dimensions of the whole process) to purchase consignments of rice from Thailand, of oil from the Gulf, of consumer goods from Malaysia. From that perspective hawala and the economy of Somalia can usefully be regarded as having become virtually coterminous.

Nor is Somalia unique. In his path-breaking study of the Money Exchange Dealers of Kabul, Maimbo (2004) shows that hawala currently plays a very similar role in oiling the wheels of the Afghan economy, so much so virtually all International Aid Agencies operating in Afghanistan now routinely utilise hawala system's conversion and distribution facilities: other than by sending couriers to fetch banknotes from Peshawar, the nearest railhead of the formal banking system, hawala is the only means whereby funds can be safely and speedily delivered, no matter how remote the destination at which they are required across the length and breadth of Afghanistan. Moreover in an extraordinary reversal of conventional expectations, many agencies require hawaladars to make such deliveries *before* sending their bank directions to release the funds to the hawaladars' agents in Peshawar (*ibid*:11). The logic of the Aid Agencies practices is easy enough to comprehend: to those used to the elaborate bureaucratic procedures deployed within formal systems, informal procedures appear impossibly unreliable. However not only did the hawaladars of Kabul take the deep-rooted suspicions of their Western customers in their stride, but Maimbo was clearly impressed by the system security of the local money market. He found no evidence of hawaladars reneging on any deals that they had struck: as the hawaladars themselves insisted, if any one of their number was stupid enough to do so with no good cause he would promptly be driven straight out of their carefully self-regulating marketplace with no hope of return.

Most significantly of all Maimbo's report deals quite directly with the issue of settlement, and given that his account is so germane to my concerns, his words are worth quoting at length. In the first place he makes it quite clear that as in the UK, Kabul's hawaladars do not operate outwith the formal financial system, for

> All international *hawala* dealers maintain one or two accounts with formal financial institutions. The usual locations … are Peshawar, Islamabad, Dubai, London, and New York. These accounts are used for effecting funds transfers for customers and for settling with other *hawaladars*. Many of the dealers in Kabul use their Peshawar-based bank accounts to receive dollars from NGOs that want afghani payments made in Afghanistan. Also, to avoid having to carry cash within Afghanistan to settle accounts, dealers credit and debit each other's Peshawar or Dubai accounts via satellite communication. The London and New York accounts are also used to make normal bank transfers to cities where the *hawaladar* has no correspondent relationships with another non-bank institution or partner. (*ibid*: 7-8).

That Maimbo should have found such linkages in place should by now come as no surprise: as in Somalia, migrant remittances (most of which originate in the Gulf) have long been a significant contributor to the Afghan economy. Nevertheless since the deposition of the Taliban regime by a US-led coalition of the willing, funds from that source have been massively overshadowed by the local expenditure of the many international agencies who now maintain such an active presence in Afghanistan. As he comments

> The recent surge in the volume of foreign currency entering Afghanistan through international aid institutions and NGOs presents researchers with a number of unique questions. How are the regional counterparts able to finance payments on behalf of the international aid institutions? What is the source of the afghani equivalent paid out in the regions? In the last 12 months, for

> example, international aid institutions have individually transferred amounts in excess of US$10 million. Where is the afghani equivalent coming from? (*ibid* 8)

At one level the answer to that question is quite straightforward, especially if we keep Afghanistan's past history as well as the current Somali example very firmly in mind. In the first place, Kabul is the natural hub of trade routes stretching west through Iran to the Mediterranean world, north through central Asia to Russia and China, and southeast into the Indian subcontinent; and despite recent upheavals, it still retains its historical role as an entrepôt, particularly with respect to Pakistan, with which it shares a long and extremely porous border.[3] Secondly, and just as importantly, even before civil war led to the collapse of Afghanistan's formal institutions, western-style banking had only developed the shallowest of local roots. By contrast Kabul's money market, whose institutional foundations were very much more deeply rooted in the local social order, was largely unaffected by state-failure. Indeed it is precisely as a result of the disappearance of the formal sector that Kabul's informal bankers have regained their traditional role as the agents through which virtually all Afghan financial transactions – whether within the Afghanistan itself or across its borders – are settled. Hence Maimbo's report effectively demonstrates that hawala (or to put it more precisely, this local component of a global IVTS network) and the Afghan economy are currently effectively coterminous. The same point holds equally true for Somalia, and doubtless of a range other failed or failing states.

5.2 The role of the informal sector in the developing world

That said, it is worth pressing the analysis one step further forward. As we have seen, formal and informal systems are no sense antitheses of one another: rather they are alternative means of achieving similar ends, and in practice regularly inter-penetrate each other. Moreover whilst formal systems have indeed become ever more salient on the back of the steady rise of Euro-American socio-economic hegemony, such that more informal systems have in general been pressed out towards the peripheral margins, in no case have those informal structures been completely eliminated. From this perspective Somalia and Afghanistan can usefully be viewed as standing at the extreme end of a continuum, in the sense that they are locations in which formally constituted financial institutions made a brief appearance before collapsing once again, such that their still largely informally constituted local economies have continued to tap into the global economy (from which there is no escape in the contemporary world) through a globally constituted informal network. However these are clearly extreme cases. Whilst comprehensive collapse of the formal sector has so far been relatively rare, there are many regions of the contemporary world in which a very substantial proportion of economic and financial transactions occur outside the formal sector and its bureaucratically organised institutions.

There are many reasons for the maintenance of informality in this sense. Many regions of the world are so remote – either in spatial or in socio-economic terms, or both – that they still stand beyond the frontier of the formal sector: it has quite literally not yet reached them. In other areas the formal sector may temporarily have reached them before disappearing once again, normally as a result of state-failure. Somalia and Afghanistan are clear examples of this extreme condition. However in more general terms there is a direct correlation between weak states, or more precisely of states whose capacity to implement any kind of reliable, formally articulated regulatory authority is extremely limited, and the emergence of thriving

[3] For many years Afghanistan has been a major 'under the counter' source of consumer goods in Pakistan, a large proportion of which are shipped duty free by road from Karachi to Kabul, and then smuggled back across the border (if indeed they ever crossed it) for sale in Peshawar's 'Afghan markets'.

self-regulating informal networks as an alternative means of supporting local economic activity. Many examples of weak states in this sense – all of which support large informal systems of this kind – can be found throughout the developing world. However another equally salient feature of the developing world is the presence of regions in which centralised control of the national economy is so intense that all kinds of independent business activity have been driven willy-nilly into informal 'black markets'; moreover where such highly centralised states provide little in the way of material support for the broad mass of the population, as is routinely the case, the unofficial – and indeed illegal – informal sector is very often a crucial life-line to survival as far as most of such state's unfortunate subjects are concerned. Nor, it is worth emphasising, is this state of affairs solely restricted to the developing world. Close inspection soon reveals that residents of the developing world who find themselves exposed to similar forms of structural marginalisation also resort to informal strategies for exactly the same reasons.

It follows the formal and the informal sector are in no sense mutually exclusive, since they always and everywhere comprehensively inter-penetrate one another. To be sure formally and informally constituted systems differ sharply in many of their operational conventions: this is only to be expected, since both arose as entrepreneurial adaptations to specific circumstances, within which each can be expected to retain a position of competitive advantage vis-à-vis the other. However it would clearly be idle to suggest that one of these approaches is inherently 'better' than the other: each has its own specific strengths and weaknesses.

However in contemporary practice this surely self-evident point is routinely overlooked, not least because the two systems are very frequently congruent with political as well as commercial rivalries, and hence articulate deep-seated socio-economic contradictions. So it is that whilst formal systems almost invariably descend hegemonically from above, and hence broadly articulate the interest of the rich, whilst their more informal counterparts invariably spring up more or less transgressively from below, and in that sense broadly articulate the interests of the poor. Examples of dialectical tensions of this kind can be found in every corner of the contemporary world, and are equally active at local, regional, national and global level. Not only do contemporary hawala networks very successfully span all these arenas of activity, but they also have a very important redistributive function, no less locally than globally: as with migrant remittances in general, they are a channel along which huge quantities of financial resources are currently being shifted from richer to poorer parts of the global economy, so providing poorer economies with unprecedented amounts of financial liquidity. The time has come to switch focus beyond this narrow issue of remittances, and to consider the systematic consequences which migrants' transgressive initiatives have now begun to have economic processes within the entire region from which the vast majority of them are drawn. Dubai provides a particularly convenient point from which to open up a top-down perspective on the operation of hawala in and around the India Ocean.

6 A systematic perspective: Hawala as a facilitator of global trade

6.1 Empirical evidence

A careful examination of all the examples of hawala-facilitated settlements we have considered so far reveals that five highly significant common denominators are almost invariably present. Firstly the low level of transfer charges, which never rise much higher than 1%; secondly Dubai's regular appearance as a financial hub, most particularly when large-scale transactions are being processed; thirdly frequency with which large scale transfers are made in tranches of US$ 100,000 (or multiples thereof), suggesting that this sum is the basic unit of account in whatever market place for which these sums are destined; fourthly that all the underlying deals are invariably negotiated and confirmed by word of mouth, usually by telephone – but in the absence of landlines by mobile, radio or satellite phone – by pairs of hawaladars who stand in a relationship of comprehensive trust with one another; and finally that no matter how informally arranged these deals may be, their implementation is normally achieved by wire transfer.

Yet although Dubai is manifestly a regional clearing house for negotiating such deals – alongside a parallel regional hub which has also developed in Hong-Kong – the *implementation* of these verbally negotiated hawala swaps not only takes place within the formal sector, but most usually involves wholesale transfers into or out of individual or corporate accounts held at the New York headquarters of one or other of the United States' major international banks. That New York should be the hub through which the great majority of hawala swaps are implemented should come as no surprise: given the primacy of the US dollar as both a unit of value and the a medium of exchange in the global economy, New York's banks – which form the current hub of world trade – are by definition the best place to do such business. This also gives rise to a further paradox: if anyone is in a position to monitor the data which would highlight the character and content of global hawala trades, it is the monetary authorities in the USA. But if the US Treasury has run a fine tooth-comb through the Exchange Houses accounts in New York – an exercise which, given their supervisory responsibilities, they are well-placed to undertake – the results of any such investigations have certainly not made their way into the public domain.

6.2 9/11 and its consequences

This raises another issue which has bedevilled all recent discussions about how the global dimensions of the hawala system might operate: the destruction of the twin towers of New York's World Trade Centre on 9/11/2001. And so intense were the waves of anger and alarm precipitated by this outrageous assault on the very epicentre of the global capitalist order that all else crumbled before them. As a result the prospect of engaging in any kind of rational debate, let alone finding the time and space to conduct careful analytical investigations with respect to 9/11 related issues – whether that relationship was evidence-based or merely hypothetical – became vanishingly small. Hence when action to counter terrorist finance and suppress money laundering rose to the very top of the political agenda the matter was deemed so urgent that prior empirical investigation was deemed to be a wholly unnecessary and indeed an unpatriotic diversion. Hence the cart was placed very firmly before the horse. As Maimbo and Passas (2003:3) note 'in the rush to create a regulatory framework for informal remittances, practice preceded a comprehensive theoretical debate and empirical research'.

Moreover that headlong rush of the ill-informed has continued to this day. Even though virtually all sober commentators have taken pains to insist that IVTS 'is neither the only nor the most important financial vehicle used by terrorists, nor the most vulnerable to abuse' (*ibid*: 14), and even though the perpetrators of the twin towers atrocity appear to have financed their whole enterprise through accounts they held with formally constituted banks, such sensible words of caution have largely been drowned out by the clamour generated by supporters of AML/CFT measures, few of whom have ever displayed much interest in whether or not there is any empirical evidence in support of their graphically articulated – but nevertheless wholly speculative – accounts of the threat which 'underground banking' and other such nefarious activities offer to the established global order. Nevertheless their successes appear to be legion. Born in the immediate aftermath of 9/11, the AML industry since enjoyed a spectacular degree of growth. As a result an army of certified AML/CFT practitioners, trained at expensive conferences in grand hotels which provide access to an ever more specialised hierarchy qualifications, has now begun add to an additional regulatory dimension in and around all the world's formally constituted financial institutions.

The consequences of all this activity are now quite clear. Not only are AML specialists highly sought after as everyone has hurried to ensure that their practices and procedures comply with FATF and FINCEN requirements, but a wide range of very respectable institutions have been fined for failing to implement the now-essential – but bureaucratically tiresome – know-your-customer procedures. However the impact of the new and hurriedly constituted regulatory regime on those involved in hawala, which was of course explicitly identified as one of its principle targets, has been far more severe. To cite some examples, the *al-barakat* network – at that time the largest and most sophisticated of Somalia's hawala systems – was closed down and all its available assets early in 2002; the US authorities insisted that it had played a role in financing *al-Qaeda*'s activities, although no concrete evidence of that allegation has been produced, and nor has it led to any formal charges being been brought before the courts. Likewise several of the UK-based hawaladars in whose cases I was instructed to prepare expert reports have been found guilty as charged, and are now serving lengthy terms of imprisonment, despite the absence of any concrete evidence that the funds in question were actually generated from the sale of heroin; indeed Customs and Excise never managed to identify, let alone arrest, any major heroin wholesalers during the course of a massive series of surveillance operations which preceded the hawaladars' arrests. Last but not least World Link Exchange – one of the Dubai's major Exchange Houses – was forced to shut down, although no legal proceedings have as yet been taken against it.

Nevertheless these developments have undoubtedly had a substantial short-term impact on the global hawala system, and no-where more dramatically than on the flow of remittances from the UK to Pakistan. Following HM Customs and Excise decision to arrest several major hawaladars, which led, amongst other things, to some very substantial sums still in passage through pipeline being impounded by the authorities, the great majority of those sending money back to Pakistan promptly began to look for safer alternatives. One option was simply to turn to the formal sector, despite its substantially higher transmission costs. The other option was much more straightforward: to carry substantial sums in currency notes on visits home, not least because these could be exchanged for rupees at a substantial premium over the official rate as soon as they arrived in Pakistan.

Nevertheless there are good reasons to expect that these effects will only be temporary. In the aftermath of *al-Barakat*'s closure, other smaller Somali networks promptly expanded to fill the resultant gap in the market. Hawala remains the very lifeblood of the Somali economy, just as Maimbo observed it to be in Afghanistan. Moreover whilst the crack-down on hawala certainly precipitated a sharp rise in the inflow of remittances through the formal sector into Pakistan. Figures compiled by the State Bank of Pakistan showed that the inflow grew by 150% in fiscal 2001-02, and by a further 78% during the following year. However there are now indications that this effect turn out to be proved to be short-lived: a comparison between the July-December figures for 2003-4 with those of 2002-3 reveal that the inflow of remittances through formal channels dropped by 10% during this period.

6.3 Survival and adjustment

Once again this development should come as no surprise. If, as there is good reason to believe, one of the central functions of hawala and other similar forms of IVTS is to provide financial liquidity to the contemporary version of the Indian Ocean's age-old patterns of 'country trade', and if its services in this sphere also enjoy a position of clear competitive advantage over those provided by the formally constituted banking sector, the prospect that the whole system would fade away in the face of a setback to one of its regional components was extremely unlikely. Hawala has survived far more serious storms in the past, and given that its strength has always lain in its inherent flexibility, a rapid adaptation to the constraints of a post-9/11 world was only to be expected. Indeed many aspects of those adjustments have proved to be remarkably easy.

In a wonderful irony, hawaladars are in a much better position to conform to the KNC (know-your-customer) regulations which have been laid down by FINCEN and FATF than are bureaucratically top-heavy rivals in the formal sector: they actually know their customers personally. Of course it is rather difficult to require one's customers to produce a utility bill and a passport it they are subsistence farmers in a remote corner of the developing world, but such procedures are much more straightforward at the other end of the chain: if needs must UK-based hawaladars can always put the relevant documents through a photocopier, and build stacks of paper in some innocuous corner of their premises; or, more progressively, they can follow Dahabashiil Financial Services – one of the successors to *al-Barakat* now providing hawala services to Somalia – by hiring software engineers from Bangalore to construct a fully computerised internet-based customer records system; and if that is not enough, they can always follow the lead set by the UAE Exchange in Dubai. They have sited their computers in such a way that passers-by on the sidewalk can directly observe that their data-entry system is fully compliant with AML/CFT best practice.

Most ironically of all, whilst all the Exchange Houses plastered their store fronts, websites and so forth with Western Union posters which further supplemented expensive advertising displays in airports and magazines world-wide, the leading formal sector money-transmission agencies appear to have reaped very few bangs for their bucks. Though Western Union has also set up shop alongside the Exchange Houses in the Dubai money market, my own observations suggested that while all the Hawaladars received a steady stream of customers, Western Union's wares were almost entirely ignored. In straightforward commercial terms they are simply in no position to compete with their more organisationally-efficient rivals. Despite everything, the Exchange houses of Dubai are still very firmly in business.

But just what is that business? And have post 9/11 regulatory requirements really led these leopards to change their spots? My own conclusion is that most hawaladars have indeed done just that. By making a few cosmetic adjustments they have indeed turned themselves into spotless leopards – or in other words much less visible panthers – such that they are able to continue in business with the key features of their everyday operations virtually untouched. But although there are now clear indications that hawaladars at all levels in the system have by now made very similar adjustments to local regulatory requirement, so enabling the system to survive what might otherwise have been a serious onslaught on its very existence, it is now becoming increasing clear that the new AML/CFT regime – just like so many of other ill-considered quick-fix measures generated by the "War on Terrorism" – also has several alarming downsides.

First, the task of gathering the evidence needed to construct an analytical model of how the hawala system actually works has been rendered a great deal more challenging. Since there is a very real prospect that any information which hawaladars disclose to outsiders could be taken down as evidence to be used against them, system-operators at all levels have become even more reluctant to discuss their activities with outside investigators: they, too, apply their own version of KYC regulations. Meanwhile the authorities appear to have scored just as serious an own-goal with respect to their nominal objectives of tracking down terrorists and drug-smugglers. Had an effort been made to work with hawaladars on a collaborative basis, rather than merely to criminalise them, it might well have proved possible to implement an audit trail through their informal networks in such a way as to lead them to such targets – always supposing that the targets which the authorities had in mind were there to find in the first place. However their preferred strategy of shooting first and asking questions afterwards has produced the contrary outcome. Whilst a few hapless hawaladars have indeed been served up as sacrificial victims to the war on terror, the authorities' much publicised strategic objective of using hawala to track down and prosecute criminals appears to have produced few results of any significance. Whilst prosecuting messengers is undoubtedly an extremely effective way of producing instant headlines, the intelligence gain from such procedures is almost entirely negative.

Indeed it is now becoming increasingly clear that authorities' heavy-handed efforts to criminalise and hence suppress hawala have now begun to back-fire. Superficial progress has indeed been achieved: most retail hawaladars in Europe, North America and the Gulf have by now taken steps to ensure that their store-front operations conform to regulatory best practice; by contrast the system's back-office procedures, most especially with regard to such issues as consolidation, settlement counter-flows and distribution remain as obscure as ever. It is not hard to see why. AML/CFT practitioners have displayed minimal interest in these complex matters, and as long as their central emphasis has been on KYC, they have made few if any efforts to gather the relevant information. Meanwhile hawaladars still have every reason to keep their heads firmly beneath the parapet, even if their business is wholly above board. In an arena in which hysteria has far more impact on formally received opinion than does rational discussion, it would be stupid to behave otherwise.

Nevertheless lack of empirical evidence to support of their extravagant hypotheses appears to cause little visible alarm amongst the advocates AML/CFT, and it has certainly not weakened their global crusade against 'underground banking'. Why, then is the campaign against informal procedures still being pursued with such vigour even though it has generated so little concrete (as opposed to a symbolic) progress towards identification and prosecution of terrorists and drug smugglers? Two complementary answers to this conundrum immediately present themselves.

In the first place such a reaction suggests that to those for whom formal, bureaucratically grounded procedures are the ideological norm, informal and hence bureaucratically unregulated procedures are quite simply conceptually offensive – so much so that they conclude that the apparent untidiness of informal systems is *bound* to be a source of malfeasance. For them regulation is a necessary guarantee against disorder, and hence the potential for criminal activity, regardless of whether or not such disorder has emerged.

However there are good grounds for believing that this ideological perspective is further reinforced by more practical concerns. In the global money transmission business – and most especially in the business of delivering migrant remittances from Euro-America to distant recipients in the developing world – the formal and informal sectors stand as toe to toe rivals. Not only is this market both large and rapidly growing, but operators in the informal sector occupy a position of very considerable competitive advantage as compared with their more bureaucratically constituted rivals. In these circumstances the likely consequences of the successful imposition of an additional regulatory burden on the informal sector are plain to see. Those informal operators who were unable to cope with the regulatory burden would be forced out of business, whilst those who did achieve conformity with the new regime would necessarily be burdened by additional costs. Either option would produce the same result as far as the formal sector is concerned: a welcome reduction in competitive pressure. However it is also worth noting the prospect of an alternative scenario emerging. As internet communications become increasingly secure and as all aspects of the hawala operation become increasingly computerised, there is a very real prospect that hawaladars may be able to fully implement all aspects of the KYC regulations *and* continue to implement their otherwise established methods of consolidation and settlement: if so, they should have little difficulty in continuing to do business whilst still keeping their transaction costs to their historically low levels – with which the formal sector (at least as present constituted) is most unlikely to be able to compete.

7 The challenge from below

7.1 Migration and entrepreneurship

Yet although the hawala system may consequently offer a real as opposed to a fictional challenge to the operating profits of the worlds major banking enterprises – albeit a fairly marginal scale – the whole institution is of very much greater significance from the perspective of economic development. From that perspective it emerges as a highly sophisticated financial operation which plays crucial but hitherto largely unconsidered role in delivering huge sums of development capital on a stable and non-debt-inducing basis straight into the pockets of some of the world's poorest and most marginalised local communities. Viewed from below, priorities change dramatically. To that of the large section of the global population whose members live, work, and seek to advance their material assets in regions far beyond the bounds of the formal banking sector's still tightly spatially limited operational frontier, transnational labour migration and the resulting reverse flows of capital assets open up entirely new vistas of wealth creation and economic development.

Nor are those vistas dependent in any way on top-down generosity. They are not aid-dependent; and provided the inflow of migrant remittances can be protected from the exploitative proclivities of the developing world's kleptocratic elites the resulting asset flows at long last offer a real prospect whereby some of the most poverty-stricken sections of the worlds population being able to mount a serious challenge to the positions of marginalisation to which they have hitherto been assigned. Most significantly of all it offers them a prospect of doing so not humble recipients of half-hearted benevolence from elsewhere, but as self-supporting entrepreneurs *acting on their own terms*. Hawala – I would suggest – is part and parcel of that whole inherently transgressive initiative.

In these circumstances efforts to use the ideologically driven smoke and mirrors of AML/CFT to discredit the utility of self-constructed and self-regulating value transmission networks such as hawala can only have one consequence: it further disadvantages the inhabitants of Euro-America's former colonial possessions by once again de-legitimising their efforts to help themselves. As ever lack of evidence is not a viable excuse for a failure to address that possibility. For those prepared think outside the box of their own pre-conceived assumptions, the basic principles around which hawala and parallel systems of IVTS operate are not hard to discern.

7.2 The art of hawala

The essence of hawala, it is worth remembering, is not a one way processes of value transmission, but rather *the exchange of debt,*[4] particularly in the context of long-distance trade. It follows that in the vocabulary of contemporary banking practice, hawala (and indeed many other forms of IVTS) are a means of implementing *trans-local financial settlements*. Moreover as all bankers know, consolidation is the route to commercial success, since the cost of implementing a very large transaction is rarely much greater than that of completing a single very small one. Hence the key to success in any forex business – and most especially one which is remittance-driven – is to bulk up funds deposited by a multiplicity of individuals into a small number of much larger tranches in order to take advantage of economies of scale in the settlement process. Even so getting to a position from which to take advantage of those economies is itself a costly business, given the way in which the formal banking sector routinely operates. The clerical effort required, and the paper-work generated in the course of implementing the processes of consolidation and de-consolidation which are a necessary prerequisite for the completion of commercially-efficient settlement processes is extremely expensive. That is precisely the reason why the formal sector charges for small scale inter-currency and inter-jurisdictional value transfers rarely drop below 10%, while for transfers in the million dollar range drop to a tiny fraction of that figure.

Against that background, the art of hawala is very easily explained: it is grounded in the implementation of exactly the same processes of consolidation and settlement as those which the formal banking system undertakes, but in which the security of each of the transactions which underpin the whole operation is not underpinned by elaborate and expensive processes of formal record-keeping, but rather through decentralised, informal and self-regulating networks of absolute trust. As a result record-keeping is reduced to the bare minimum required to ensure the accurate implementation of each of the deals which any given pair of hawaladars contract between themselves. Since this is a distributed system, it has no central registry: it is quite literally superfluous. In the context of this distributed system each hawaladar is in a position to contract a swap with any other hawaladar whom he trusts, and who likewise trusts him: gaining and maintaining a reputation for absolute trustworthiness is therefore an absolute prerequisite for participation in the system – and, of course, for its very reliability. Hence it is well understood that if any participant was to be so foolish to betray that trust, sanctions of the utmost severity would necessarily ensue.

A further key feature of this distributed system is that hawaladars have no necessary obligation to do business with one another. To be sure kinsfolk frequently find it convenient to cooperate closely, especially when they operate in separate markets: if their interests are complementary the even deeper levels of mutual trust that arise from common kinship means that they can readily cope with exceptionally high levels of temporary financial exposure. But whilst all hawala deals generate some degree of financial exposure – since settlements invariably take some time to catch up with each other – hawaladars routinely compete fiercely with one another for each new business opportunity. Hence not only are margins regularly cut to the bone as hawaladars shop around the market in search of the best available deal, but each of the deals which they contract is free-standing. Completion of a deal today gives rise to no obligation to make a deal with same partner tomorrow if better terms can be found elsewhere.

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[4] This is the way in which the term hawala is understood in Arabic legal commentaries on the practice prepared well over a millennium ago. In concrete terms these commentaries are largely focussed on commercial practices in the Eastern Mediterranean and the Red Sea, whose hub then lay in Egypt (Ballard 2003: 4).

Hawaladars take the same parsimonious view with respect to record keeping: whilst they keep meticulous records of the details of each specific agreement they reach, details which are extraneous to its implementation are routinely discarded. Given the presence of a network of relationships of absolute trust through which to underpin security, distributed systems of this kind can clearly afford to be a great deal more 'informal' in their approach to business than more formally constituted Western-style banks, since they have no need to sustain the elaborate and expensive back-offices which are prerequisite to the maintenance of their bureaucratically grounded procedures. It is precisely because such informally constructed distributed systems can afford to stay so much leaner and meaner that hawala enjoys such a huge competitive advantage as compared with their formally constituted rivals.

7.3 An illustration: hawala in action

With this model of a distributed system in mind, let us now consider just how global hawala – as coordinated from the Exchange Houses in Dubai – actually works. As a starting point it is worth noting that the label which these businesses use to identify themselves is entirely apt: they are best understood not as banks but groups of market-making Forex brokerage houses. Within them a small number of dealers are constantly engaged in negotiating complex back-to-back swaps in which they buy large tranches of Sterling, Euros, and Dihrams (or in other word hard currencies which can readily be converted into US dollars) from consolidating/retail hawaladars in Europe, North America and the Gulf, in exchange for the delivery of similarly sized tranche of Rupees, Taka, Afghanis, Rials and so forth; meanwhile they simultaneously construct deals with customers based in countries where those currencies circulate who are only to willing to buy US dollars at a premium rate in exchange for local soft currency out-payments. Having brokered such a mutually satisfactory settlement the deal is immediately implemented, again with a minimum level of back-office overheads, either by making – or by instructing their customers and/or hawala partners to make – the appropriate value transfers in the global medium of exchange (i.e. US dollars) through the SWIFT wire-transfer system[5]. Nothing could be more straightforward.

However as all bankers will be aware, the actual practice of settlement is in fact a great deal more complex that this grossly simplified model suggest, especially in the light of the specific characteristics of the market which the Dubai Exchange houses have emerged to serve. As we have seen migrant remittances give rise to a host of miniscule transactions, such that they have to be grossed up in huge processes of consolidation before they are rendered amenable for use in such settlement processes. By contrast most of the purchasers of those consolidated tranches of value in Karachi, Kabul, Mogadishu and so forth normally operate on a very much larger scale: many of them will have invoices to settle as a result of buying (for example) large scale shipments of grain from Thailand, computer components from China or Televisions from Indonesia. Whilst such businesses routinely expect their invoices to be settled in US dollars, they may well have their own reasons for preferring to have those funds delivered not to banks in their own home bases, but rather to accounts held in more free-wheeling centres such as Hong-Kong and Singapore, given that they are just as much

[5] This analysis represents my own best efforts to make sense of the brokerage and settlement processes in which all the major Exchange Houses appear to specialise. Whilst the only way in which my hypothesis could be fully confirmed would be in the context of an opportunity to conduct a comprehensive inspection of their financial records, it is worth emphasising that my interpretation is far from being completely hypothetical. It is wholly congruent with a substantial samples of transactions Exchange Houses' accounts with major international banks. in both London and New York.

involved in hawala-style transactions as a means of organising the supply of components and raw materials for their manufacturing enterprises.

The brokerage opportunities available in this complex market are undoubtedly legion, given that it stretches right round the ocean rim from Indonesia to South Africa. But if opportunities are large and rapidly growing, competition is nevertheless intense. Hence the prospect of making a killing is remote: not only are margins extremely tight, but the sanctions imposed on those imposed on those who break their obligations of absolute trust are extremely severe. But given the sheer volume of funds passing through this network, skilled and agile brokers have every prospect of making a decent living, given their capacity hugely to undercut the commissions charged by the formal banking sector, weighed down as it is by the dead-weight of its expensive bureaucratic procedures.

7.4 Formal and informal approaches to system security

All this raises some major philosophical issues. Whilst the hawala system's position of substantial competitive advantage over formally constituted banks is grounded in the commercial efficiency of its processes of consolidation and settlement, its consequent lack of a central registry, let alone labyrinth of back-office records has provided proponents of more formal procedures with their central point of criticism and attack: how, they ask, can a 'system without records' guarantee its integrity? And in the absence of such guarantees, does it not follow that such systems are wide open to criminal malfeasance, of which terrorists and drug smugglers are bound – sure as night follows day – to take maximum advantage?

Given such a conceptual perspective, only one solution is possible: hawaladars must be required to sharpen up their procedures for ensuring system security. By what means? The answer is obvious: no matter how commercially admirable the hawaladars' lean and mean procedures may be, they have an obligation – if only for security's sake – to keep far more detailed records. Indeed if only hawaladars could reinvent themselves and adopt the same principles as those currently deployed within the formal sector (and thereby ceasing to be hawaladars) all would, of necessity, be well!

However it is by no means clear that this 'abolish hawala' solution would necessarily bring about any great benefits. Even if we assume for the moment that ITVS networks are currently facilitating the laundering of huge quantities of dirty money – despite the absence of concrete evidence that this is indeed the case – there is little prospect of terrorists and drug-smugglers experiencing any great difficulty in identifying other ways of achieving their objectives. As a voluminous literature confirms [see, for example Baker (1999), Loretta (2003), Kleverman (2003), Jeffery (2003)], money-launderers have long since devised all manner of ways in which illegitimately acquired funds can be passes through a series of accounts in formally constituted banks, preferably those operating in off-shore jurisdictions where regulatory supervision is so light as to be virtually non-existent, before reaching its final resting place in well fire-proofed but wholly 'legitimate' numbered accounts in more convenient on-shore locations. Given the huge scope – let alone the widespread use – of these loopholes in the formal sector's regulatory armour, efforts to insist that urgent steps should be taken to suppress IVTS on the grounds that it *might* provide a further channel through which money-launderers could find it convenient to transmit their ill-gotten gains can only be described as very special pleading.

Against this background it is worth remembering that like any other business enterprise, hawala owes its continued existence to the effectiveness and efficiency of the services which it offers its clients. Moreover since the service it provides is nothing less than the transmission of value – or in other words the very foundation of its customers' assets – its operators necessarily put a high premium on maintaining a reputation for absolute trustworthiness and integrity. But however much alarm this rapidly growing and ever more powerful distributed system may cause Western observers, not least because it lacks a central registry through which all the myriad transactions which take place under its aegis might be monitored, such structures are much more familiar, and much more deeply historically grounded, in the context of the Indian Ocean region in which it has emerged. From that perspective hawala is a classic example of an oriental system of self-regulation in which all participants constantly monitor each others' reputation for trustworthiness. Regulation is locally not centrally organised, but implemented by participants themselves; and since everyone has a powerful interest in the maintenance of system-integrity, anyone known to be putting that condition significantly at risk can only expect to find themselves instantly frozen out of the business – and beyond that to be comprehensively excommunicated from the very community to which they belong.

8 Conclusion

There can be no dispute that IVTS networks – of which the specific examples which have been considered here are only a small component – is a boon to long-distance labour migrants, and most especially to those seeking to remit their savings to kinsfolk based in regions of the world which still lie far beyond the frontiers of the formal banking sector. No matter how much institutions in the formal sector may seek to reduce their transmission and delivery costs, there appears to be no prospect whatsoever of them being able to match the speed, convenience and efficiency with which well-organised IVTS networks such as hawala are currently able to implement delivery to recipients living in otherwise remote and inaccessible areas in the developing world. Indeed even when inaccessibility is not a serious issue – as when recipients are based in areas with immediate access to contemporary communications infrastructures – the same point very often still holds true. When it comes to the implementation of long-distance transnational value transfers, the speed and efficiency with which IVTS networks can process transactions, no matter how small in size, regularly puts them in a position of substantial competitive advantage as compared with their more bureaucratically ordered rivals in the formal sector.

Like long-distance migration, IVTS is a phenomenon which is here to stay: indeed the two are best understood as two sides of the same coin. Just as the steadily falling cost of long-distance travel has facilitated a rapid growth in long-distance labour migration, so the velocity of circulation of information and assets within migrants' self-constructed transnational networks has received an even more dramatic boost as result of yet more improvements in the speed and cost of telecommunications. In an ever more wired world, attempts to impose any kind of centralised control on the circulation of debts and credits within migrants' carefully constructed transnational such networks – for it is these which provide the foundations of virtually all forms of contemporary IVTS – are most unlikely to succeed.

Entrepreneurial networks of this kind – which can now be observed bursting their way upwards and outwards from almost every corner of the non-European world – seem likely to emerge as some of the most significant engines of global socio-economic change as we move into the new century. As they do so all manner of long-standing patterns of inequality – and especially the institutional structures which have grown up to support well-entrenched patterns of hegemonic privilege – will find themselves being ever more comprehensively eroded. The kaleidoscope of history never ceases to revolve. Hence whilst the emergence of England and then of the United States manufacturing may indeed have generated unparalleled levels of wealth for the inhabitants of Euro-America, it is now quite clear that Asia is rapidly regaining its historical previous position as the world's premier manufacturing hub. How far the inhabitants of Euro-America will be able to continue to enjoy the standards of living which they have come to expect as large chunks of the region's manufacturing base disappears eastwards is an open question. Meanwhile that very position of global privilege is now under threat just as much from within as from without, for a combination of consumer affluence and demographic implosion has also precipitated the very processes with which this paper is concerned: the mass influx of migrant workers prepared to fill the ever widening gaps which have begun to emerge at the lower end of the Euro-American labour market. Migration – no less than the shift in manufacturing activity back to its Asian roots – is having a far reaching impact on the structure of the global socio-economic order, whose future consequences we can currently only dimly perceive. What is quite clear, however, is that in the *longue durée*, these developments are quite unstoppable.

As Bhagwati (2003) has recently argued, the entrepreneurial forces which underpin contemporary patterns of long-distance labour migration, and which are themselves very largely a product of the internal dynamics of innumerable transnational networks bursting upwards from below, have by now largely undermined all attempts by immigration authorities to place international border-crossing under effective regulatory control. If Bhagwati's conclusions are anywhere near correct, it follows *a fortiori* that prospect that financial regulators might be any more successful in scrutinising – let alone regulating – the full extent of the circulation of all kinds of assets within these self-same networks on anything like a comprehensive basis are remote in the extreme.

This should not, however, be read as a message of despair. Rather it forces us to open up some serious questions about the very *purposes* of such regulatory efforts, and in each case how those regulatory objectives – always supposing that they are actually worth the candle – can best be achieved. Such objectives potentially include

- The protection of retail customers from hawladars' malfeasance
- The protection of expensively regulated banks from unwelcome competition
- The protection of the numerical integrity of national and global economic data
- The exclusion of the proceeds of criminal activity – and/or the financing of such activities – from the global financial system.

By no means all of these objectives are of equal weight – or of equal seriousness. Given that retail customers appear to have few, if any, complaints about their hawaladars' reliability it is by no means clear whether the pursuit of the first of these objectives – which appears to be the nominal objective of most current regulatory initiatives – can be expected to lead to any great progress towards the suppression of the last. Regulatory crack-downs may indeed provide a ready means of producing spectacular 'results', but these will be entirely nugatory if those cracked down upon turn out to be nothing more than scapegoats. In these circumstances a better informed – and hence much more tightly focussed – approach might well lead to more concrete (rather than symbolic) outcomes.

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