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# SHADOW ECONOMIES & STATE SECURITIES: HAWALA AS A TOOL OF ECONOMIC SUBVERSION - A CASE STUDY OF THE KHANANI BROTHERS AND THEIR CINEMATIC REFLECTION IN DHURANDHAR

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## INTRODUCTION

Modern states derive their strength not merely from territorial control or military capability, but from the integrity of their economic and financial systems. Currency stability, regulated capital flows, and institutional oversight together form the backbone of state security. Parallel to this formal structure, however, exists a vast and resilient *shadow economy*; an informal, unregulated financial universe that operates beyond state scrutiny. Among the most potent instruments sustaining this shadow economy is the *hawala* system, an informal value transfer mechanism rooted in trust, kinship, and secrecy.

While *hawala* has historically served benign purposes particularly for migrant communities lacking access to banking it has, in the contemporary geopolitical landscape, evolved into a strategic tool for money laundering, terror financing, sanctions evasion, and economic destabilisation. This article examines *hawala* not merely as a financial irregularity, but as a mechanism of *economic subversion* capable of undermining state sovereignty.

Using the Khanani brother's operators of one of the largest global *hawala* networks as a central case study, the article analyses how informal finance can be weaponised against national economies. It further evaluates how this reality has entered popular consciousness through its fictionalised depiction in the Hindi film *Dhurandhar*, thereby illustrating the interaction between law, economics, national security, and cinema.

## CONCEPTUAL FRAMEWORK: SHADOW ECONOMIES AND STATE SECURITY

A shadow economy refers to all economic activities that occur outside formal regulation, taxation, and state oversight. Such economies thrive on anonymity, cash transactions, and

informal enforcement mechanisms. From a legal perspective, shadow economies challenge the state's monopoly over legitimate economic activity, weaken fiscal capacity, and erode the rule of law.

From a national security standpoint, the threat is more acute. Illicit financial networks enable organised crime, transnational drug trafficking, and terrorist organisations to move funds across borders without detection. In this sense, financial opacity becomes a force multiplier for non-state and state-sponsored hostile actors.

Economic subversion occurs when such mechanisms are deliberately exploited to weaken a rival state's financial stability, distort its currency system, or finance internal unrest. Unlike conventional warfare, economic subversion is deniable, continuous, and deeply corrosive. Hawala, due to its invisibility and scale, is uniquely suited for this purpose.

### **HAWALA: MECHANISM, LEGAL STATUS, AND VULNERABILITIES**

Hawala is an informal remittance system based on trust between brokers (hawaladars). A transaction is completed without physical movement of money across borders; instead, value is transferred through offsetting obligations recorded in private ledgers. Enforcement relies on reputation rather than legal contracts.

Legally, hawala occupies an ambiguous space. While informal remittances are not *per se* illegal in many jurisdictions, hawala becomes unlawful when used for money laundering, terror financing, or tax evasion. International instruments such as the Financial Action Task Force (FATF) recommendations require states to regulate or criminalise unlicensed money service businesses, including hawala operators.

The system's core vulnerabilities—lack of documentation, anonymity, and reliance on trust—are precisely what make it attractive to criminal and hostile state actors. Once integrated into transnational networks, hawala becomes almost immune to conventional regulatory enforcement.

### **THE KHANANI BROTHERS: ARCHITECTS OF A GLOBAL SHADOW FINANCIAL NETWORK**

The Khanani brothers, operating primarily from Karachi, exemplify the transformation of

hawala from a community-based practice into a global criminal infrastructure. Through their firm, Khanani & Kalia International, they established an extensive network spanning the Middle East, Europe, East Asia, and North America.

At its peak, this network reportedly handled billions of dollars annually, servicing a clientele that included narcotics syndicates, organised crime groups, terror organisations, and politically connected actors. The scale and sophistication of operations demonstrated how informal systems could rival, and in some respects surpass, formal banking channels in speed and reach.

The legal significance of the Khanani case lies in its recognition by international enforcement agencies as a *transnational criminal organisation*. This designation placed hawala networks alongside drug cartels and terrorist groups, marking a shift in how informal finance is perceived within international criminal law.

## **HAWALA AS A TOOL OF ECONOMIC AND STRATEGIC SUBVERSION**

Beyond conventional money laundering, the Khanani network illustrates how hawala can function as an instrument of strategic economic warfare. By facilitating large-scale circulation of unaccounted funds, such networks distort foreign exchange markets, undermine tax systems, and weaken monetary control.

In the South Asian context, hawala networks have been repeatedly linked to counterfeit currency circulation and terror financing. The infusion of high-quality counterfeit notes not only funds subversive activities but also damages public trust in currency, fuels inflationary pressures, and imposes enforcement costs on the state.

The strategic value of such operations lies in their plausibility and deniability. Unlike overt military action, economic subversion through hawala operates continuously, invisibly, and at relatively low cost to the sponsor.

## **STATE RESPONSE AND LEGAL ENFORCEMENT: INTERNATIONAL AND DOMESTIC DIMENSIONS**

The dismantling of the Khanani network was primarily driven by international cooperation, particularly through United States law enforcement agencies. Undercover operations, financial surveillance, and the use of extraterritorial jurisdiction culminated in arrests, asset freezes, and

convictions.

This episode underscores the limitations of purely domestic enforcement against transnational informal finance. It also highlights the growing importance of financial intelligence units, cross – border information sharing, and coordinated sanctions regimes.

However, legal responses remain reactive rather than preventive. Hawala networks often adapt faster than regulatory frameworks, shifting routes, jurisdictions, and methods. This creates a persistent asymmetry between state enforcement and shadow financial systems.

### **CINEMATIC REFLECTION: *DHURANDHAR* AND THE POPULAR IMAGINATION**

The film *Dhurandhar* represents a fictionalised portrayal of hawala networks and their entanglement with crime and national security. While cinematic narratives necessarily simplify complex realities, the film captures the essential dynamics of informal finance as an invisible yet powerful force.

From a socio-legal perspective, such representations perform an educative function. They translate abstract financial crimes into accessible narratives, shaping public understanding of economic offences as threats comparable to violent crime.

Nevertheless, cinema often omits structural and institutional dimensions such as regulatory failures, international complicity, and political economy in favour of personalised antagonists. As a result, while *Dhurandhar* reflects the phenomenon symbolically, it cannot substitute for a nuanced legal and economic analysis.

### **CRITICAL ANALYSIS: LIMITS OF LAW IN REGULATING INFORMAL FINANCE**

The persistence of hawala networks raises fundamental questions about the capacity of law to regulate trust-based, non-institutional systems. Criminalisation alone risks driving such networks further underground, while over-regulation may harm legitimate users dependent on informal remittances.

A balanced approach requires distinguishing between culturally embedded informal finance and its criminal exploitation. Legal frameworks must integrate financial inclusion, technological monitoring, and targeted enforcement rather than blanket prohibition.

The Khanani case demonstrates that when informal finance intersects with organised crime and state-sponsored subversion, it ceases to be a peripheral regulatory concern and becomes a core national security issue.

## CONCLUSION

Hawala, as examined through the case of the Khanani brothers, illustrates how shadow economies can be transformed into instruments of economic subversion. Operating beyond formal law yet deeply embedded in global financial flows, such systems challenge traditional notions of sovereignty, regulation, and security.

The intersection of informal finance, transnational crime, and geopolitical strategy demands a rethinking of economic offences within legal scholarship. They must be understood not merely as violations of fiscal law, but as acts capable of destabilising states.

The cinematic reflection in *Dhurandhar* signals growing public awareness of these issues, but the real challenge lies in translating awareness into robust legal and institutional responses. Ultimately, safeguarding state security in the twenty-first century requires confronting not only visible threats, but also the invisible financial architectures that sustain them.

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